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## **REPORT II**

**International Labour Conference**

**TWENTY-SEVENTH SESSION**

**PARIS, 1945**

### **The Maintenance of High Levels of Employment during the Period of Industrial Rehabilitation and Reconversion**

**Second Item on the Agenda**

**MONTREAL  
International Labour Office  
1945**



## PREFACE

At its 1st Session, convened in Washington in October 1919, the International Labour Conference dealt with *unemployment*. The 27th Session of the Conference, meeting in Paris in October 1945, will deal with *employment*. The different wording is significant. As World War II draws to a close the view that States take of their responsibilities both in the national and the international field is vastly different from the view they took a quarter of a century ago.

In 1919, the International Labour Conference sought for no more than the establishment of systems of public employment agencies which would be advised by representatives of employers and workers, and the suppression of, or restrictions on, fee-charging employment agencies. The Conference also expressed the modest hope that each Member of the Organisation would establish an effective system of unemployment insurance and would "co-ordinate the execution of all work undertaken under public authority, with a view to reserving such work as far as practicable for periods of unemployment and for districts most affected by it".

During the early part of the inter-war period advances were modest but steady. With the coming of the great depression Governments accepted responsibility, not only for keeping idle workers from starving, but to some extent for providing them with employment. When a second great war again provided several years of full employment for the first time since peace had been made in 1918, there was general acceptance by Governments and by workers' and employers' organisations of the principle that want and idleness should not be permitted to follow military victory. In the Atlantic Charter the President of the United States and the Prime Minister of the United Kingdom declared that they sought "for all improved labour standards, economic advancement and social security", and they hoped for a peace which would "afford assurance that all the men in all the lands may live out their lives in freedom from fear and want". In the Declaration of Philadelphia adopted by the 26th Session of the International Labour Conference in 1944, the Conference affirmed that "all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security

and equal opportunity", and recognised the solemn obligation of the International Labour Organisation to further among the nations of the world programmes which will achieve full employment and the raising of standards of living. The language is different but the pledge is the same in the San Francisco Charter of the United Nations. By that document the 50 nations agree to take joint and separate action in co-operation with the organisation of the United Nations for the promotion of "higher standards of living, full employment and conditions of economic and social progress and development", and to keep this action within the framework of "universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language or religion". On the objective there is general agreement. It is not full employment by itself, but full employment in a free society. On the factors which Governments should take into account in reaching their decisions there is no serious disagreement. There will be, however, differences of opinion on the measures to be applied for achieving the objective. It is not to be expected therefore that the policies advocated in this Report will command universal approval in all their aspects.

This Report deals with "the maintenance of high levels of employment during the period of industrial rehabilitation and reconversion", a subject which the Governing Body decided at its 94th Session in London in January 1945 to include in the agenda of the 27th Session of the International Labour Conference. The wording of the item is significant. It is not the organisation of employment, which is mainly a technical question of labour market organisation, but the maintenance of high levels of employment, which is primarily an economic problem that governmental policies will seek to solve. Manifestly, the urgency and magnitude of the problem are different in different quarters of the world. Measures that can be appropriately taken by one country may be unsuited for another. Some countries have been ravished by the invader. Others show few marks of the terrible conflict that is ending. Some countries are in urgent need of imports, while exports will greatly assist others in their task of maintaining high levels of employment at certain stages of the transition period. Certain countries have developed as suppliers of raw materials which previously came from sources seized by the enemy. Still other countries have been rapidly industrialised. Will that process be retarded temporarily?

To this last question the Report pays only brief attention, for the reason that the further development of under-developed countries is a long-term problem. That is true also of international

migration, which is important in respect of the maintenance of high levels of employment. In the transition period there is an immediate problem of refugee settlement, and in this connection the work done by the International Labour Office on migration should be useful. The 26th (1944) Session of the Conference called on the United Nations to "encourage by appropriate measures, with adequate safeguards for all concerned, the orderly migration of labour and settlers in accordance with economic needs and social conditions prevailing in the various countries". Since the 26th Session important aspects of the question have been referred to the Permanent Migration Committee, which it is hoped will be able to meet in 1946. The Committee will then be in a position to report to the Governing Body and through it to the next session of the Conference.

The resolution of the 26th Session referred to above, concerned "economic policies for the attainment of social objectives". In it the Conference recommended the continuation of wartime machinery of international co-ordination and control for such periods as any serious shortages of goods exist. It also urged the formulation of comprehensive and co-ordinated programmes for prompt and orderly reconversion, reconstruction, and economic expansion by Governments, employers' and workers' organisations; the retention, as long as shortages exist, of certain economic controls and their relaxation thereafter as rapidly as is consistent with the public welfare; the adjustment of tax systems to encourage economic expansion and the development of effective mechanisms for adequate financing of the reconversion, reconstruction and expansion of industry, trade, commerce and agriculture. One of the questions on the agenda of the 26th Session was "the organisation of employment in the transition from war to peace", and on this point the Conference adopted three Recommendations, namely the Employment (Transition from War to Peace) Recommendation, 1944, the Employment Service Recommendation, 1944, and the Public Works (National Planning) Recommendation, 1944. A fourth Recommendation which has a close bearing on employment was also adopted, namely the Social Security (Armed Forces) Recommendation, 1944.

This is the background of the present Report. Chapter I is of an introductory character and explains the nature and scope of the problem as a whole. Chapters II and III describe the economic framework within which policies have to be considered, and suggest certain conclusions which can be drawn from the facts referred to. Thus there are certain economic factors which determine the general level of employment, either in the short run or in the long

run. It is to these factors, which are explained in Chapter II, that special attention must be paid if employment is to reach and maintain the desired level in each country. There are, however, certain factors which are of special importance in the present phase of employment policy, more particularly those arising out of shortages in the supply of raw materials, productive equipment, transport and special labour skills. These are the subject of Chapter III.

Chapters IV to X are concerned with policies. Methods of achieving the desirable level of private investment are discussed in Chapter V. The role of public investment in the transition period, in particular in preventing unemployment, is examined in Chapter VI. One difficulty of the transition period, which is characterised by shortages of goods and abundant purchasing power, is to prevent inflation. Consequently, Chapters VI and VII examine policies adapted to this end in respect of consumer spending, and prices, wages and hours. Chapter VIII deals with the more specifically international aspects of the problem, namely, international trade and capital movements, and Chapter IX with wartime changes in the structure and location of industry.

At their meeting in Quebec City in June 1945, the Employment Committee and the Governing Body had before them the chapter headings of this Report and were given an oral statement of its contents. In preparing the Report for publication the Office has endeavoured to take account of the views expressed in Quebec. The Report deals with economic matters but it confines its treatment of them to the points at which they impinge directly on the problem of maintaining high levels of employment. In this framework the Report proceeds to the concluding chapters. No matter how high the general level of employment is, there are extremely important problems of actually preparing people for and fitting them into the jobs that are available (Chapter X). There is also the problem of income maintenance during the temporary unemployment inevitable in the transition (Chapter XI). Finally come the conclusions and the draft resolution which is submitted for the consideration of the Conference.

For the data in the Report and the conclusions drawn from them the Office bears the sole responsibility. It should be added that this Report went to the printer before it was clear that the war with Japan would end quickly. If this had been known as the Report was written, many parts of it would, of course, have been phrased differently. However the analysis of the situation in the transition period and the policies proposed are not affected fundamentally.

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## CHAPTER I

### NATURE AND SCOPE OF THE PROBLEM

To the peoples of the world there are no problems of greater urgency than those connected with full employment. In relation to these problems, the International Labour Organisation has a precise function, defined by the Declaration of Philadelphia. The Declaration specifies that the Organisation has a solemn obligation to further among the nations of the world programmes to achieve full employment and the raising of standards of living.

During the transition period, the promotion of these objectives will involve special difficulties. The war has inevitably diverted the world's economy from its basic aim of serving human needs. Its productive machinery has been geared to war requirements to an extent that is hard to appreciate fully. Today, the peoples of the world are facing the task of turning this machinery towards the broad social horizons of an expanding peacetime economy envisaged in the Atlantic Charter and reaffirmed in the Agreement of Yalta. The redirection of world resources will require a tremendous readjustment of employment. Millions of men and women will have to change from wartime to peacetime employments, and many are already grappling with re-employment problems.

The problems confronted and the experience already gained, especially in the sorely-tried countries liberated from enemy occupation, has naturally led to a revision of previous plans in a great many countries and to a much keener realisation of the special difficulties of the liberated countries. The end of the war in Europe and its rapid progress in the Pacific have led to the formulation of more detailed plans than could be made by the time of the last session of the Conference. The aim of this Report is to examine the employment problems of the transition period and to consider solutions for them in conformity with the social objectives restated by the Conference at its 1944 Session.

The last year has brought these problems into sharper perspective. The liberated countries of Europe are already in the midst of transitional difficulties of tragic gravity. Their peoples are suffering from shortages of all kinds, so serious that even their most elementary needs for food, clothing and shelter cannot

be met. During the long years of occupation and the early months of liberation, stocks have been exhausted; reserves of all kinds have been lowered; machinery and other equipment have undergone tremendous wear and tear; and most raw materials are in short supply or unobtainable. Fuel and power are scarce. Transport facilities have been destroyed or damaged or have necessarily had to be placed at the disposal of the military authorities of the United Nations. Rolling stock and moveable property of all kinds have been carried away by the enemy. Industrial plant and equipment suffered extensive damage as the war moved into its final stage. The net result is an over-all shortage of everything that is needed to produce and to distribute the goods and services so urgently required for the mere existence of those who live in the countries liberated from the enemy.

Other countries as well, however, have serious economic problems affecting the structure and distribution of employment. Some of them are rooted in shortages of the supply of certain kinds of raw materials, machinery and other productive equipment, transport or labour skills. While these shortages create immediate difficulties, they are far less serious and far more temporary than those of the liberated countries. Other problems derive from the lopsided character of wartime economic development. In the United States and Great Britain, for example, some of the heavy industries have expanded out of all proportion to anticipated peacetime demand, and at the same time important consumer-goods industries have been greatly curtailed. Still other problems arise from the wartime spread of industrialisation in a great many countries in widely separated parts of the world — China, India, the British Dominions, certain Latin American and Balkan countries, and in parts of Africa. Under the pressure of war needs and because of the disruption of pre-war trade channels, new industries have grown up and others have been greatly expanded. With the end of the war, their future is thrown into uncertainty.

The world enters the transition period, therefore, with an economy characterised by serious contradictions. There are vast discrepancies between the needs of the people and the means available for meeting these needs. Productive capacity has been tremendously built up in some parts of the world and destroyed in others. Shortages in certain directions exist alongside of surpluses in others. There have been vast changes in the structure of industry, both nationally and internationally, and in world channels of trade and distribution. Temporary factors are combining to create a period of shortages; more permanent factors are pressing towards a period of abundance.

This is the complex economic framework within which the human problems of the transition period must be resolved. To millions of men and women, the transition to peace means the prospect of looking for another job and in many cases moving to another place of work. Millions of men and women are being demobilised from the armed forces and millions of others dismissed from war industries. Additional millions are being repatriated from Germany and elsewhere. New job opportunities will be opening up for them in other occupations and industries and in other areas. The available workers and the available jobs have to be brought together as rapidly and as smoothly as possible, so that the human cost of the transition may be held to a minimum.

Europe is already grappling with these human problems of the change-over from war to peace. In the initial stage of liberation, with economic life brought to an almost complete standstill, over half a million workers were thrown out of their jobs in France, and several hundred thousand in Belgium. Unemployment was also extensive in Italy, Greece and the Netherlands. Thousands of liberated prisoners and other deportees were being repatriated and had to be reintegrated in civilian life. In recent months, the situation has improved but has grown even more complicated. Unfilled job vacancies, especially in agriculture, mining and the building trades, exist side by side with declining but still considerable unemployment. The demobilisation of war prisoners and the repatriation of other deported persons have taken place more rapidly than had been anticipated and new national armies are being built up to replace those reduced or disbanded during the occupation. The displacement of population has reached fantastic proportions. It was estimated in 1943 that well over 40,000,000 men and women in the European continent had been uprooted from their homes because of war conditions. Since then, many more thousands have had to move from one place to another. The human adjustment to be made is clearly of unprecedented difficulty. Its problems encompass the lives of millions of workers and their families.

In the United States and the countries of the British Commonwealth, the readjustment will also be of great magnitude, but can be made under less difficult economic conditions. In these countries, the employment situation has reflected the growth of the armed forces and of total productive capacity and the vast diversion of resources to the industrial war effort. The total number of people at work or in the forces has increased to a level which is well beyond a peacetime goal of full employment, in the sense that far more people are at work than would be in the employment market were

it not for the war. By the millions, these men and women have been shifted to work of national importance.

In Great Britain, for example, between June 1939 and June 1944, the total number of persons in industrial employment or in the forces rose by nearly one fifth. Of the total at work in June 1944, 47 per cent. were in the Services (or full-time Civil Defence) and in war industries (engineering, shipbuilding, metals and chemicals), and a further 26 per cent. were in essential industries (agriculture, mining, Government service, transport, shipping and food and tobacco manufacturing). The less essential industries had lost one third of their entire labour force. Of the total working population of some 23 million, about 10 million may have to change jobs after the war, and of these, several millions will be moving from one part of the country to another. In Canada, the total population at work or in the forces had increased from 3.9 million in 1939 to 5.1 million in October 1944. Of the total in 1944, nearly 1 million were in war industry (compared with 121,000 in 1939), and about 780,000 were in the armed forces (compared with 70,000 in 1939). It has been estimated that some 2 million workers will have to be reallocated to employment during the transition. In the United States, the rise in the total labour force (including the armed forces) has exceeded by more than 6.5 million the rise that might have been expected under non-war conditions. All told, some 20 million persons may have to change jobs during the transition period. In Australia in 1944, 90 per cent. of all the men were in paid employment or the forces, as compared with 78 per cent. in 1939; nearly half of them were in direct war work or the forces by 1944, as compared with only 1.2 per cent. so engaged in 1939. Some 30 per cent. of all the women were in full-time work in 1944 as compared with 24 per cent. at work outside their homes in 1939; about a quarter were in direct war work in 1944, as compared with only 0.2 per cent. in 1939. It has been estimated that half of the entire adult working population will have to change jobs when the war is over. In New Zealand, over 50 per cent. of the male population between the ages of 18 and 45 is in the armed forces. These countries face the problem of shifting millions of workers from war industries and the forces to useful peacetime employment. The new requirements of the post-war economy will demand a large-scale redistribution of the labour force.

In China, India, certain Latin American countries, and parts of Africa, the employment situation in the transition period will continue to reflect the spread of industrialisation. The character of the problems will remain much the same as it has been during the war. There will undoubtedly be some dislocation of employ-

ment during the world shift from war to peace. If there is sufficient international co-operation in the economic field, however, these difficulties may be temporary. In the long run, when the initial obstacles are overcome, industrialisation should bring many and varied new employment opportunities, and slowly reduce disguised unemployment in agriculture, and if guided by the social aims of the peoples, provide the key for vast increases in standards of living now far too low.

These, in brief, are the problems which constitute the background for the action which must be taken. The basic way in which the employment problems of these millions of men and women can be met is by policies aimed at keeping employment opportunities at a high level. There must be useful work available for all those in search of it. Action to promote full employment is therefore a first principle of post-war planning for the transition period. The policies necessary to achieve this end were studied as far back as 1943 by the Delegation on Economic Depressions of the League of Nations, which issued a remarkable report on the subject.<sup>1</sup> Economic policies providing full employment opportunities must, however, be supplemented by effective organisation to help employers to secure the most suitable workers, to help workers to find the most suitable employment, and generally to see to it that the right number of workers with the necessary skills are available and are distributed satisfactorily among the various industries and areas. Principles of employment organisation during the transition period were formulated by the last session of the International Labour Conference. In this field the present Report merely describes what has been done in the various countries since then to bring together available workers and available jobs and to overcome the inevitable discrepancies between the supply of workers and the demand for their services by such methods as training and transference.

The approaches to full employment in the transition period therefore lie in measures to make possible a high general level of employment and in action to facilitate the redistribution of men and women in suitable employment. Either approach alone would be inadequate. Together they constitute a comprehensive attack on the economic and social problems which must be met if the right to useful work is to be added to the bill of rights of mankind.

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<sup>1</sup> LEAGUE OF NATIONS: *The Transition from War to Peace Economy*, Report of the Delegation on Economic Depressions, Part I (Geneva, 1943). Part II of the Delegation's Report, entitled *Economic Stability in the Post-War World: The Conditions of Prosperity after the Transition from War to Peace*, was issued early in 1945.

In a number of countries co-ordinated national employment policies are beginning to emerge. Great Britain, Australia and Canada have formulated broad statements of policy; Sweden has been laying the economic foundation for a comprehensive planned employment programme; the United States Congress is considering a Full Employment Bill which has been endorsed by the Director of War Mobilization and Reconversion; and long-term development policies are being pursued or worked out in a number of countries, including Belgium, Brazil, Chile, India, Mexico, New Zealand and Switzerland. These national plans differ widely in their stage of development and in many other respects, but they are strikingly similar in aim and in general principles of policy. In addition, the Soviet Union has followed a planned full employment policy for many years, geared to the requirements of its socialist economy.

National plans are being supplemented in some parts of the world by regional agreements aimed at economic co-operation to solve common problems affecting the level of employment and other matters. During the last year, for example, the Economic Charter of the Americas was adopted by the Inter-American Conference on Problems of War and Peace (Mexico, February-March 1945)<sup>1</sup>; a provisional European Committee was set up in May 1945 through which European Governments can consult on economic questions of common interest; economic agreements have been concluded by France with Belgium, Luxembourg and the Netherlands; and the Australian-New Zealand agreement includes specific provision for mutual co-operation in achieving full employment in the two countries. With regard to wider international co-operation, it is highly significant that the United Nations Conference on International Organisation included among the purposes of world organisation the promotion of full employment. The United Nations Relief and Rehabilitation Administration is at work on the vast and complicated human problems of persons displaced during the war, and other questions linked with emergency aid to the peoples who have lived under enemy occupation. The World Trade Union Conference, which met in London in February 1945, emphasised full employment and rising living standards as primary objectives of workers everywhere. The International Business Conference, held in the United States late in 1944, declared its adherence to the goal of economic co-operation among nations for the purpose of expanding commerce and employment in every country.

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<sup>1</sup> Cf. *International Labour Review*, Vol. LI, No. 5, May 1945, p. 583.

The development of these more comprehensive plans for attacking unemployment on every front is one of the striking features of national and international post-war policies. Moreover, the extent of agreement among Governments, employers and workers with respect to the causes of unemployment and the policy and action needed to create sufficient employment opportunities for those seeking work has become substantially wider. The growing unity of purpose among the peoples of the United Nations is reflected in the field of post-war employment policy. This is the environment in which the 1945 Session of the Conference is able to consider and to deal with the transitional problems of full employment, problems which directly affect the future of millions of workers all over the world and will condition the employment situation and standard of living of the entire post-war world.

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## CHAPTER II

### ECONOMIC FACTORS DETERMINING THE GENERAL LEVEL OF EMPLOYMENT

For any country the period of reconversion and rehabilitation (or transition) starts when the scale of its war effort begins to taper off, or, in the case of countries occupied by the Axis, upon liberation. Thus nearly all the countries have already been in the stage of transition for some time. When is the transition over? The question is difficult to answer precisely, but it is possible to lay down five criteria that must be met before the transition can properly be said to be completed for any one country:

- (1) It must have ceased military activities on all fronts.
- (2) Its armed forces must have been reduced to the size considered necessary in peacetime.
- (3) Its production of war materials and supplies must have been contracted to the level considered necessary in peacetime.
- (4) Its war plant and stocks (in excess of those considered necessary in peacetime) must have been converted to peacetime uses.
- (5) General scarcities of consumers' goods, of raw materials, and of equipment, must have disappeared; that is, demand must not exceed supply at current prices over so wide a range of goods and services as to constitute an upward pressure upon the general price level.

The sequence in which these criteria are met will vary from country to country. In the United States and Canada, it is possible that upward pressure on the general price level will disappear before other symptoms of transition, depending on the length of the Japanese war, and on the rate of reconversion and the course of money incomes. On the continent of Europe, scarcities are likely to outlive all other aspects of the period of reconversion and rehabilitation. The same may be true of Great Britain. It is clear, however, that the transition period must be measured in years for all countries. It will probably be shortest for highly developed countries suffering no devastation; it is conceivable that in the United States the transition will last only two or three years. In Great Britain, the

period will probably be five to seven years<sup>1</sup>, and on the Continent it will be even longer.

### THE MEANING OF "FULL EMPLOYMENT"

Terminological disputes about the exact meaning of "full employment" cloud the issue; a working concept is all that is needed for policy decisions.<sup>2</sup> Clearly, full employment does not mean continuation of wartime conditions in the labour market, with most people working longer hours than they like, and with older men, school-age boys and girls, and housewives in the labour market, who would not care to work in normal times. It does not even mean that all members of the normal peacetime labour force must have jobs all the time. Economic progress requires change, and no economy with a free labour market can entirely eliminate "frictions" in the adjustment to change. In the best-ordered of societies, there will always be a certain amount of "structural" unemployment: that is, there will be people who have been let out of contracting industries and who have not yet found jobs in expanding ones. There may be some irreducible minimum of intermittent and seasonal unemployment as well. The existence of temporary unemployment averaging 3 or 4 per cent. of the working force for the whole year is therefore compatible with "full employment". Full employment does mean, however, that at any time there are as many jobs as there are people seeking them. It means that no individual workers will be out of a job more than three or four months as a consequence of structural changes. It means that wage rates are not cut to levels that constitute exploitation of workers, and that hours of work are not reduced so much as to make earnings inadequate.<sup>2</sup> It means that casual and seasonal workers who want to work between jobs in their special fields can do so, but only for wages commensurate with their efficiency in other types of employment.

Full employment is not, of course, the only objective of post-war economic policy. It is not even an end in itself; it is a prerequisite for maximisation of human welfare. For highly developed countries, full employment is necessary in order to attain the highest possible standard of living at any point of time. In less fortunate societies, it is necessary in order to raise standards of living, through national development or reconstruction, as much as possible over a given period of time. Full employment is neces-

<sup>1</sup> Cf. M. KALECKI: "Employment in the United Kingdom During and After the Transition Period", in *Bulletin*, Oxford Institute of Statistics, 4 Dec. 1944.

<sup>2</sup> These matters are discussed more fully in Chapter VII.

sary, but not sufficient, for the attainment of these ends. Resources should not only be used fully, they should be used with maximum efficiency. The fact that *any* use of labour yielding the slightest direct utility is a net gain, if the *only* alternative is unemployment, should blind no one to the fact that relatively unproductive uses of labour are wasteful if more productive alternatives are available. Policies designed to maintain full employment must, so far as possible, provide also for efficient utilisation of resources. Moreover, economic welfare depends not only on the level of national income, but also on its distribution.

Full employment would not be desirable if it could be obtained only through serious inflation. When prices mount rapidly, and currencies tumble on the foreign exchange markets, the distribution of real income is distorted, and resources are badly allocated. The very uncertainty and insecurity of economic life in a period of inflation destroys the contribution of full employment to human welfare. *Economic stability* is an important objective of post-war economic policy. The success of Canada, Australia, the United States, and Great Britain in stabilising prices and foreign exchange rates during the war shows that full employment and economic stability are not incompatible. However, the farther any economy advances into the zone of full employment, the more bottlenecks will appear, and the greater will be the danger of cumulative inflation. Any Government launching a vigorous employment policy must stand ready with measures to control inflation if it should appear.

Finally, full employment should not — and need not — be sought by means that diminish the degree of political, social and economic freedom. The objective is not just full employment, but "full employment in a free society".<sup>1</sup>

#### \* "EXCESS-SAVINGS" AND "CAPITAL-SCARCITY" COUNTRIES

Analysis of unemployment in recent years has been stated mainly in terms of a tendency for savings to exceed investment when high levels of employment are attained. Even during the transition period, such analysis may be useful for countries like the United States, Canada, and Australia, which were technically advanced when war began and which have since added on balance to their productive capacity. The more highly developed Latin American countries and technically advanced neutrals such as Sweden may also have a problem of finding outlets for savings

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<sup>1</sup> Cf. Sir William BEVERIDGE: *Full Employment in a Free Society* (London, Allen and Unwin, 1944).

if exports fall off sharply. But for under-developed countries such as China, Turkey and certain Balkan and Latin American countries, the problem is not one of excess savings, but of insufficient savings to meet the need for investment projects of all kinds. The same is true of other countries, such as France, Belgium and the Netherlands, which before the war were highly developed, but which during it have suffered severe losses of capital equipment through destruction and delayed replacement. Even Great Britain may find it necessary throughout the whole of her transition period to go on encouraging savings.

It is essential, therefore, to distinguish from the outset between "excess-savings" countries and "capital-scarcity" countries. For the latter category of countries the transition period presents the unpleasant choice between a more rapid elevation of the standard of living and a more rapid development of the capital structure so as to permit a truly high standard of living at a later date. The employment problem will be less one of generating a sufficient volume of total spending to provide jobs for all than it will be one of obtaining enough materials and equipment to enable the available labour to work productively. In devastated countries, it is necessary to start building and rebuilding from the very beginning of the production cycle — providing transportation facilities, developing power, restoring mining, forestry and agriculture to full-scale production. In such countries, scarcities and the accompanying threat of inflation will be serious for some time to come.

In both categories of country, however, the economic determinants of the general level of employment are the same; it is the actual values of these determinants, and the consequent policy implications, that are different. Moreover, as time goes on, as scarcities disappear and capital structures are built up, one country after another will cross the borderline, cease to be concerned with capital scarcity, and will face the dangers of excess savings.<sup>1</sup> It is therefore necessary to start with a general understanding of the factors determining the level of employment in *any* economy, and then to proceed to the special factors affecting employment opportunities in particular countries.

### HIGH LEVEL OF SPENDING AND INCOME

Among professional economists, and in a growing sector of the general public, there is a conviction that unemployment is unnecessary, and there is increasing agreement on the basic requirements for its prevention. Maintaining a satisfactory level of

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<sup>1</sup> See Chapter VII, on wage and price policy.

employment is tantamount to maintaining a satisfactory level of gross national income or expenditure. It is easy to see why this parallelism exists. For most people, income is directly dependent upon employment. Even for those whose incomes are independent, the regularity and value of income received depend upon the extent to which, and the terms on which, others are employed. Historically, the variations of income and employment are so close as to be virtually identical. National income, in turn, is equivalent to the total value of goods and services produced and sold, since all incomes are derived from the production and sale of goods or services of one sort or another. Thus, the achievement of the universal goal of full employment requires simply that the production and sale of goods and services of all kinds be adequate.

There is also widespread agreement as to which components of this total volume of spending, or income, or sales are most significant, for the analysis of employment. They are: sales of home-produced consumer goods and services to private individuals at home, or "private consumption"; sales of home-produced capital goods to private individuals or firms at home, or "private investment"; sales of home-produced capital goods to Governments at home, or "public investment"; sales of final current goods and services to Governments at home, or "public consumption"; and sales of goods and services to foreigners or "export". Discussion of employment policy can proceed most fruitfully in terms of these main components of national income.<sup>1</sup>

The contribution to national income (and so to employment) of each of these major components is not limited to its own initial volume. Any kind of spending has a variety of secondary effects, and the components are all interrelated.

Every increase in investment tends to increase consumption, and every increase in consumption tends to increase investment. Taken together, secondary effects may be very great indeed; and an initial increase in spending of \$1 or £1 *during a depression* may lead to a rise in national income many times that amount. Where full employment already exists, as it does in most belligerents and some neutrals at the present time, the "secondary effects" of all expenditures, including Government war expenditures, are among the factors responsible for the existing high level

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<sup>1</sup> If public and private consumption and investment are defined so as to include imports, these imports must be subtracted from exports to obtain the figure for employment-creating income or expenditures or sales. Cf. *Economic Stability in the Post-War World*, op. cit., pp. 116, 292; UNITED KINGDOM MINISTRY OF RECONSTRUCTION: *Employment Policy*, Cmd. 6527 (London, 1944), pp. 16-17; CANADIAN MINISTRY OF RECONSTRUCTION: *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa, 1945), pp. 4-5.

of employment. So far as employment is concerned, these secondary effects could act after the war *only* in a downward direction. That is, failure to *replace* war expenditures, or exports of war materials and supplies, by other expenditures (public or private) could lead to a *drop* in national income (and so in employment) many times the original reduction in war expenditures.<sup>1</sup> Any rapid upward movement could consist only of rising *money* income, with no offsetting increase in employment and production — that is, of inflation.

Where sufficient statistics of the labour force and labour productivity are available, it is possible to make estimates of the level and composition of gross national income or expenditure that would just maintain full employment and avoid inflation for any year in the near future. Estimates of this kind have been made by both private and governmental agencies in the United States, Great Britain and Canada. The figures presented in tables I to III are based upon these estimates, and are reproduced here for illustrative purposes. The years chosen represent a year of "total war", and the first year when all transitional phenomena are likely to have disappeared.

TABLE I. GROSS NATIONAL PRODUCT AT FULL EMPLOYMENT IN THE UNITED STATES: 1944 AND 1948 (ESTIMATE)

(*in thousand million dollars, at 1944 prices*)

Component	1944 <sup>1</sup>	1948 <sup>2</sup>
Consumer spending.....	99.6	110 - 125
Private investment.....	3.9	20 - 25
Government expenditures (on goods and services).....	98.1	50 - 25
Exports less imports <sup>3</sup> .....	-1.5	0 - 5
Gross national product.....	200.1	180

<sup>1</sup> Seasonally adjusted rate for second half. Source: U.S. DEPARTMENT OF COMMERCE: *Survey of Current Business*, Feb. 1945, p. 5.

<sup>2</sup> Based on the following estimates: Arthur SMITHIES, S. Morris LIVINGSTON, Jacobs L. MOSAK: "Forecasting Post-War Demand", in *Econometrica*, Jan. 1945; H. C. SONNE: *National Budgets for Full Employment* (National Planning Association, June 1944); E. A. GOLDENWEISER and Everett E. HAGEN: "Jobs after the War", in *Federal Reserve Bulletin*, May 1944.

<sup>3</sup> Excluding Government-financed exports.

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<sup>1</sup> The removal of restrictions on private spending will tend to increase the magnitude of secondary effects as well as to increase private spending directly. Consequently, it may not be necessary to replace war expenditures with an *equal* volume of other kinds of primary spending in order to maintain the same level of income.

TABLE II. ESTIMATED GROSS NATIONAL PRODUCT IN THE UNITED KINGDOM, 1944 AND 1951<sup>1</sup>  
*(in thousand million pounds, at 1944 prices)*

Component	1944	1951
Consumer spending.....	5.20	8.0
Gross private investment <sup>2</sup> .....	0.25	1.5
Government expenditures <sup>4</sup> on goods and services.....	5.20	1.5
Exports less imports <sup>5</sup> .....	-0.65	0
Gross national product.....	10.00	11.0

<sup>1</sup> Estimated from White Paper on *National Income and Expenditure 1938-44* (Cmd. 6628); and M. KALECKI: "Employment in the U. K. during and after the Transition Period", in *Bulletin, Oxford Institute of Statistics*, Vol. 6, Nos. 16 and 17.

<sup>2</sup> Inclusive of the investment of the Post Office and of the housing and trading services of local authorities.

<sup>3</sup> Inclusive of war damage made good.

<sup>4</sup> Exclusive of the investment of the Post Office and of the housing and trading services of local authorities and of the interest on the National Debt.

<sup>5</sup> Exclusive of Lend-Lease supplies.

TABLE III. ESTIMATED GROSS NATIONAL PRODUCT IN CANADA, 1944 AND 1948

*(in thousand million dollars, at 1944 prices<sup>1</sup>)*

Component	1944	1948
Consumer spending.....	5.3	6.6
Private investment.....	0.8	1.3
Government expenditures on goods and services.....	5.5	2.7
Exports less imports <sup>2</sup> (excluding Government-financed).....	0.2	0.3
Gross national product.....	11.8	10.9

<sup>1</sup> Estimate based on various published Government statistics (mainly Dominion Bureau of Statistics and Bank of Canada); CANADIAN CHAMBER OF COMMERCE: *Kitchener-Waterloo Survey*; and *Financial Post* survey: *Jobs for Tomorrow* (Toronto, 1944).

<sup>2</sup> Exports financed by Government included under "Government expenditures".

In order to have a basis for employment policy, however, it is clearly not enough to estimate the level and composition of gross national product for a single post-transition year. It is necessary to trace the development of national income and its components quarter by quarter, or preferably even month by month, throughout the whole transition period.

## PAST AND PRESENT TRANSITION PERIODS

Past post-war periods follow a fairly common economic pattern.<sup>1</sup> There are, of course, variations from time to time and from country to country, but the general outlines of post-war economic histories since Napoleon are reasonably clear. The cessation of hostilities is usually followed by several months of general uncertainty and hesitation. There are disparate movements of various economic data (prices, production, employment, etc.) but there is a discernible tendency towards recession.

The recession phase has in most cases been followed by a period of increased activity and inflation, often leading to more rapid price rises than during the war itself, and with unemployment falling to very low levels. For those cases where data exist, re-absorption of men from the armed forces and war industry seems to have been accomplished with surprising rapidity during these post-war inflationary booms.

These booms have been followed, however, by precipitous deflations, ending in severe depression, with unemployment and business failures reaching high levels. As a rule, these post-war depressions have been relatively short, and recovery has set in within one to three years of the down-turn.

It is worth pointing out that the common pattern of post-war economic behaviour does not stop with the recovery phase. In nearly all cases where records exist, the recovery has been followed by a few years of prosperity, giving way to deep and prolonged

<sup>1</sup> See, for example: LEAGUE OF NATIONS: *The Transition from War to Peace Economy* (1943), and *Economic Fluctuations in the United States and the United Kingdom, 1918-1922* (1942); MOULTON and SCHLITTERBECK: *Collapse or Boom at the End of the War* (Brookings Institution, 1942); Wilson F. PAYNE: *Business Behaviour 1919-22* (University of Chicago School of Business, *Studies in Business Administration*), Vol. XII, Nos. 4 and 5; Paul SAMUELSON and Everett E. HAGEN: *After the War, 1918-1920* (National Resources Planning Board, June 1943); ADVISORY COMMITTEE ON RECONSTRUCTION (Canada): *Report on Sequence and Timing of Economic Events in the Last War and Postwar Period, 1914-23*, Part I, by Alice TURNER, and Part II, by Benjamin HIGGINS; MINISTRY OF RECONSTRUCTION (Great Britain): *Employment Policy*, Command Paper 6527, *The Economic History of Britain from the Armistice of November 1918 to the Restoration of the Gold Standard in April 1925* (mimeographed study), and *The Abolition of Controls, 1918-21* (mimeographed study); NATIONAL BUREAU OF ECONOMIC RESEARCH: *Our Economy at War Series*, which contains studies of the impact of war on the Canadian, German and British economies as well as on the American; THORP and MITCHELL: *Business Annals* (New York, National Bureau of Economic Research, 1926); Joseph SCHUMPETER: *Business Cycles* (New York, 1939), Chapters VI, XIV; Benjamin HIGGINS: "Agriculture and War; a Comparison of Agricultural Conditions in the Napoleonic and World War Periods", in *Agricultural History*, Jan. 1940; G. E. FUSSELL and M. COMPTON: "Agricultural Adjustments after the Napoleonic Wars", in *Economic History*, Feb. 1939; G. E. FUSSELL: "The Grain Supply in Two Wars: The Napoleonic and European", in *Scientific Agriculture*, May 1932; W. W. ROSTOW: "Explanations of the 'Great Depression' 1873-90", in *Economic History*, Feb. 1940, and "Investment and the Great Depression", in *Economic History Review*, May 1938.

depression. The connection between "post-war depressions" such as 1929-39, 1873-93 (in the United States), and 1825-42, and the wars that preceded them, has never been established with complete clarity; but such a connection may exist. The history of the last post-war period should warn us against false optimism if the transition itself proves less difficult in some countries than is now feared. Post-war planning cannot stop when the men now in the armed forces or war industry have been absorbed into peacetime employment. The real problem may still lie ahead, and may only appear when the "post-post-war boom" is over.

Economic history after previous wars provides a warning of what to guard against after the present war. It also shows that post-war developments are determined largely by the economic policies adopted. However, the problem of readjustment will be much greater this time.

While there are no satisfactory figures of gross national expenditures for the World War I period, such data as are available suggest that in the United States, Great Britain, Canada, and Australia, the share of total resources devoted to war on this occasion was roughly double that of the last one. The post-war task of reabsorbing men and women released from the armed forces and war industry will be proportionately greater this time.

Such enormous transfers of labour cannot be expected to take place smoothly and without friction. In many cases, geographic as well as occupational shifts will be required. Uncertainty, inconvenience, and inertia will prevent many families from moving from war industry centres to other places where long-run opportunities for employment are better. Occupational shifts may be delayed by the need for retraining workers or for providing the equipment and materials needed to utilise existing special skills. Outside of a few fields where there is an obvious "backlog" of demand, business may even hesitate to reconvert or expand because of uncertainty as to the specific directions in which post-war demands may develop. Lack of certainty as to which war-time innovations will prove applicable to peacetime production may also prove a barrier to rapid reorganisation of the world economy. Unless adequate policies are adopted to prevent such frictions from leading to cumulative increases in unemployment, deep depression might develop even during the transition period.<sup>1</sup>

The wartime measures to control inflation resulted, probably for the first time in history, in a rise of prices smaller than the expansion of means of payment in several countries. The very novelty

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<sup>1</sup> See Chapter X.

of this phenomenon makes its ultimate results hard to predict. There can be little doubt, however, that the wartime growth of liquid reserves (currency, deposits, and bonds) makes the post-war price situation highly volatile. The wartime *growth* of liquid reserves is of little importance; but *activation* of the huge increase in money supply, especially if combined with liquidation of bonds, could launch an inflation of very serious proportions.

World War II also differs from World War I in its duration. It has already lasted longer than the First World War, and, from the standpoint of employment policy, the "duration" is much more ambiguous in this war than it was in the last. Hostilities proceeded almost full-tilt up to 11 November 1918, and then stopped virtually overnight; on the following day, telegraph wires hummed as war contracts were cancelled. This time the end of the European war involves only a partial reconversion to peacetime production.

Experience after 1918 is exceptionally inadequate for predicting the nature of the employment problem in devastated countries. The extent and thoroughness of destruction in World War II is altogether without precedent, and the task of reconstruction is correspondingly unprecedented. Though far from complete, the available evidence suggests a shocking degree of devastation and disruption, far exceeding the ravages of World War I.

#### PROBABLE COURSE OF DETERMINANTS IN TRANSITION PERIOD

Before any Government administration can know what it must do to prevent unemployment during the transition, it must first determine what are the *inherent* tendencies in the economy of the country. What about consumer spending, private investment, exports and Government expenditures throughout the transition period? These factors must be considered if economic policy is to be successful in maintaining full employment and in controlling inflation.

##### *Excess-Savings Countries*

###### *Consumer Spending.*

Consumer spending depends mainly upon the level of "disposable income". Disposable income is calculated by adding transfer payments<sup>1</sup> to gross national income, and subtracting depreciation allowances, undistributed profits, business taxes, and personal income taxes. Depreciation allowances, depending mainly on physical factors and accounting practice, are not usually

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<sup>1</sup> Transfer payments, include the debt service, demobilisation expenses, veterans' bonuses, and unemployment benefits.

— and perhaps should not be — subject to rigorous control by economic policy; but the other items composing the gap between gross national product and disposable income are directly dependent upon economic policy. Consequently, the level of consumer-spending will also depend to a very large extent upon economic policy.

The other major factor in the level of consumer-spending is the manner in which people wish to distribute their incomes between consumption and savings. Statistical studies suggest a high degree of stability in the relationship of consumption (or savings) to income in various countries, with a tendency for the percentage of income saved to rise as higher levels of income are reached. During the last war, however, the share of income spent on consumption was unusually low for the levels of income then prevailing, and by the same token the share of income saved was abnormally high. These "abnormal savings" were presumably the consequence of the lag in adjustment to rapidly rising incomes, of the uncertainties of the war period and a consequent desire to buildup reserves for contingencies, of a redistribution of income due to wages lagging behind prices, of war loan campaigns, and of other factors. After the war was over, the percentage of given incomes saved decreased slightly, reflecting the release of pent-up demand; but it remained below the pre-war level (and below the level of the later 20's and of the 30's) until the 1921-22 depression struck. The increase in consumption during the post-war boom was only a fraction of the abnormal savings of the war period.

This experience of the last post-war period should provide a warning against expecting too much of pent-up demand for consumer goods in excess-savings countries during the present transition. The extent of abnormal savings and of delayed replacement of consumer durables is much greater this time than last; but there is no assurance that the savings will be rapidly liquidated, or that the pent-up demand for consumer durables will be rapidly released. Many potential buyers may adopt a "wait and see" attitude. They may hesitate to buy a new house or a new car until they are sure their jobs and their incomes are secure. If a fall in prices or an improvement in product is expected, consumers may wait until the more favourable buyers' market develops.

On the other hand, a rush to the consumers' markets before supplies can be greatly increased could start an upward spiral of inflation. Less of the abnormal savings have been dissipated this time through wartime inflation, and durable and semi-durable goods (for which alone demand can accumulate) are a more impor-

tant part of consumers' budgets. Economic policy even in the "excess-savings" countries must continue to check consumer-spending for some time.

The situation with respect to consumption in excess-savings countries, therefore, suggests a need for a judicious admixture of encouragement and restraint. For a short time, both general and specific limitations on consumer-spending may still be necessary. At a later stage, it may be desirable to support the general level of consumption, while still exercising selective controls over commodities still in short supply. As scarcities disappear, these controls can be dropped.

If the Japanese war continues for more than a year or two, so that the bulk of the reconversion can be accomplished before it is over and pent-up demand can be largely released, it is conceivable that peak consumption will be reached even before the end of the transition period in excess-savings countries.

#### *Private Investment.*

The course of private investment is much more difficult to estimate than is the course of consumer-spending. Investment depends upon the prospect of profit, and is accordingly very much influenced by psychological factors. However, there are indications that in a reasonably favourable political and economic environment, private investment in excess-savings countries will increase substantially after the war. Replacement demand for plant and for stocks, deferred maintenance, reconversion of war plant, development of new industries and expansion of old ones, will provide the basis for an unprecedented level of private investment.

Capital outlays, however, are subject to limitations similar to those that apply to consumer outlays. Whether or not the potential demand for capital goods develops soon after the war depends upon the degree of optimism with which business men and investors face the future. If they are pessimistic in their views, investment may increase very little over pre-war levels; and if they are sanguine, it may be necessary to continue restrictions on investment in fields where manpower and materials are still scarce. If reconversion takes place quickly and the Japanese war is prolonged, peak investment may be reached before the armies have been cut to peacetime levels and all war plants have been reduced to a peacetime scale of operations.

If pent-up demand for capital goods can and does become effective in the year after the end of the European war, it is conceivable that the increase in private consumption and private investment together will be sufficient to offset the expected 35 to

45 per cent, cut on war production. In that case, however, the "excess-savings" problem will probably appear in the following year, when pent-up demand will have largely spent itself, and when war production may be still further cut.

An optimistic estimate of total pent-up demand for both capital and consumers' goods in the United States would be about \$50,000 million.<sup>1</sup> If, say, \$35,000 million can be safely released in the year following collapse of organised resistance in Europe, the cut in war expenditures in that year might be offset; but then only \$15,000 millions' worth of pent-up demand will be left for the following year, when war outlays may be \$50,000 million or more below 1944-45 levels. Consequently, Government policy might have to be directed towards filling the gap. Much the same sort of argument applies to Canada and in lesser degree to Australia. In these countries, the problem of offsetting excess savings in order to support the general level of income and employment is likely to appear before the transition is completed. Unless means are found to finance large-scale exports for relief and reconstruction, the same may prove to be the case in countries where the high wartime level of employment has been dependent upon exports of war material and supplies, such as Sweden, Switzerland, and Argentina.

#### *Exports.*

In discussing exports as a source of income and employment in excess-savings countries, a sharp distinction must be drawn between exports that would develop spontaneously, and the exports that could be produced by an active commercial policy on the part of the Governments of excess-savings countries. In the absence of vigorous policies on the part of the Governments of excess-savings countries, exports are not likely to make a large contribution to their levels of income and employment. The needs of the capital-scarcity countries are very great indeed; but few of them have large reserves of gold or foreign exchange, and during the transition period few of them will be able to increase their exports enough to pay for the badly wanted imports. Any large volume of trade between excess-savings and capital-scarcity countries in the transition must be based in large measure upon loans or gifts from the former to the latter.

Exports from excess-savings to capital-scarcity countries are already at unprecedented levels, as a result of wartime demands and of Lend-Lease and Mutual-Aid financing. Even with a vigorous policy of supporting exports, it is unlikely that export surpluses

<sup>1</sup> Cf. STEINDL, SMITHIES, LIVINGSTON, MOSAK, HAGEN and GOLDENWEISER, SONNE, *op. cit.*

will be as large during the transitional period as they were in the final year of the European war. The Canadian White Paper on employment and income adopts, as an objective, retention of exports at a level of \$1,750 million, about half the wartime peak.<sup>1</sup> Much the same sort of development can be expected for the United States, although the reduction in exports may not be so great.<sup>2</sup> Of course, in terms of foreign *need* for exports of excess-savings countries, there is no reason why they should not be maintained at wartime levels, provided these countries are willing to go on financing their own exports. Otherwise, however, exports will certainly contract.

#### *Government Expenditures.*

The general course of Government expenditures in the transition will have two main aspects: a fall in the total outlays on goods and services (capital and current) and replacement of war expenditures by other types. A subsidiary change in the pattern of Government expenditures is likely to be a substitution of "transfer payments" (debt service, demobilisation expenses, veterans' allowances, unemployment benefits) for direct expenditure on goods and services. Consequently, cash requirements of Governments will probably fall less than Government expenditures on goods and services.

Even in the absence of an active policy of maintaining full employment Government non-war expenditures in excess-savings countries would tend to rise in the transition period. For Governments as well as private individuals and firms have been accumulating pent-up demand. Maintenance and repair of streets, roads, sewers and public buildings, at all levels of government, have been held up; badly needed new schools, hospitals, slum-clearance projects, and so forth, have been delayed. Many public works are so pressing as to require higher priorities than some private work of less social importance. In addition, the situation in excess-savings countries will probably require a growing volume of non-war expenditures in the transition to maintain full employment.

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<sup>1</sup> *Employment and Income, with Special Reference to the Initial Period of Reconstruction.*

<sup>2</sup> See, for example, August MAFFRY: "Foreign Trade in the Post-War Economy", in *Survey of Current Business*, Nov. 1944; National Planning Association: *America's New Opportunities in World Trade* (Planning Pamphlets, Nos. 37-38, Nov. 1944); Percy BIDWELL: *A Commercial Policy for the United Nations* (Committee on International Economic Policy, New York, 1945); Henry WALLACE (Secretary of Commerce), in *Foreign Commerce Weekly*, 19 May 1945, pp. 3 and 15.

*Capital-Scarcity Countries*

It is much more hazardous to make predictions about the probable course of national income and its components in the capital-scarcity countries. Except in Great Britain, there are no satisfactory figures of national income of sufficiently recent date from which to start. Estimation of gross national income for the first post-transition year is virtually impossible, owing to lack of knowledge about the size of the labour force and its probable productivity. For the years in between the uncertainty is even greater. There will also be more divergence among various countries within this category than is the case with excess-savings countries; consequently, only a few remarks about the general nature of the problem can be attempted at this point.

*Consumer-Spending.*

Consumption will be limited by available supplies. The magnitude of the supplies will depend upon the extent to which consumer goods are made available through exports from excess-savings countries, and on the rate at which domestic production can be restored or developed. The rate at which domestic production can be increased will in turn depend in part upon the extent to which raw materials and equipment are made available by other countries. Limitation of effective demand to available supplies, so as to check inflation, will undoubtedly be a major task of economic policy in these countries.

The first year after the European campaign should see a jump in consumption in these countries. Even with diversion of shipping to the Pacific theatre of war, the decline in the total scale of operations should permit an increase of exports to the devastated and less developed countries. There will be a general shortage of manpower and resources for several years, and restriction of productive capacity will be a necessary first step in some countries; but it should be possible to increase domestic production of consumers' goods in these countries, within the next year or two. Perhaps even more important is the reconstruction of transportation facilities.

During the Japanese campaign, conditions in most capital-scarcity countries should gradually improve. With the end of organised resistance on all fronts, another upward jump in consumption in these countries can reasonably be expected. Policy regarding consumer-spending will be much the same as in excess-savings countries in its restrictive aspects; but support to the general level of spending will probably be unnecessary and policies

to raise the propensity to consume will probably be impossible without inflation, until the transition is over.

#### *Private Investment.*

With the shortages of capital equipment so clearly apparent, it may seem at first sight that with the end of the European campaign, private investment will quickly reach high levels. However, there will be many limiting factors. Shortages of skilled labour, materials and equipment may delay many badly needed projects. In the absence of Government assistance, some investment projects may be deterred by lack of finance. The general economic and political uncertainty that is bound to prevail for some time after the war will be a barrier to private investment in some countries. Much of the investment that must be undertaken before other projects can proceed will be in fields that are traditionally governmental: transportation, power, certain kinds of mining and so forth. If private investment is to attain any considerable volume; if it is to proceed in such a manner as to prevent unnecessary bottlenecks; if various projects are to be undertaken in the most effective order; and if necessary products are to be increased in the right proportion, clearly a good deal of Government assistance, and some Government regulation, will be needed. Establishment of priority ratings, provision of credit, underwriting of risky investment, undertaking of prerequisite public investment projects are among the functions that Governments might fulfil in the private investment field.

#### *Exports.*

While exports from capital-scarcity countries may increase in the transition, imports will undoubtedly increase more; that is to say, these countries will almost certainly have import surpluses, and these are essential to put devastated countries on their feet and to build up the capital structures of countries which are underdeveloped. Some of these countries, however, have become capital-scarcity countries mainly because of wartime destruction and delayed replacement — France and Great Britain for example, and they are anxious to become net exporting countries as soon as possible. All of them must eventually become net exporters, if they are to repay foreign loans.

#### *Government Expenditures.*

The course of Government expenditures in capital-scarcity countries is even more difficult to predict than in excess-savings countries. It seems likely that Government outlays for relief and

reconstruction will continue to run to high figures in the immediate future; much of the job to be done will not be profitable in the business sense, and accordingly Governments must bear a lion's share of the responsibility for it.<sup>1</sup> As transportation facilities, public utilities, and workers' housing are restored, as scarcities disappear and conditions approach something more closely resembling normality, the share of private enterprise in total economic activity will probably increase, and the share of public enterprise can accordingly be reduced; but it is nevertheless probable that during the whole period of reconstruction and rehabilitation Government expenditures in these countries will be sizable.

<sup>1</sup> Cf. Chapters IV and V. In this respect and in others Great Britain occupies an intermediate position between capital-scarcity and excess-savings countries.

## CHAPTER III

### SHORTAGES OF TRANSPORT, SOURCES OF POWER, RAW MATERIALS, PRODUCTIVE EQUIPMENT, AND SPECIFIC TYPES OF LABOUR

#### GENERAL ASPECT OF THE PROBLEM

In every country, during at least a part of the transition period, the existing labour supply is likely to be inadequate to meet the demand for goods at current prices if this demand is permitted to develop to the full.<sup>1</sup> Thus continuation of high taxation, commodity controls and rationing is necessary in order to prevent the development of an inflationary spiral of prices and wages. The reason for the divergence between the aggregate demand for goods and services and the aggregate supply of them (both expressed in terms of labour) in the period following the war is clear. During the war both personal consumption and private investment were kept down by a variety of measures. Consequently, the demand for durable and semi-durable consumption goods and for investment goods "piled up". As a result, the demand for consumption and investment goods for some time after the end of the European war—unless kept in bounds by measures similar to those adopted in wartime—will be considerably higher than pre-war, and will be likely to exceed at current prices the supply as determined by the existing manpower.

But although the total labour supply will be inadequate to meet the demand for goods and services at existing prices, unemployment may be caused by shortages of transport, sources of power, industrial equipment, and particular types of labour. For these shortages may create bottlenecks which will hinder employment of the available labour in the economy as a whole or in particular sectors. Such unemployment will be of quite a different nature from that which arises in a depression as the result of insufficient effective demand (*i.e.*, demand backed by the necessary purchasing power). On the contrary, it will go hand in hand with an intensification of the inflationary tendency. It is true that unemployment reduces the demand for consumption goods. However, the supply

<sup>1</sup> Except in underdeveloped countries in south-eastern Europe, Asia and Latin America, where there is surplus agricultural population; but in those countries the productive capacity of industry will be inadequate to satisfy the demand.

of consumption and investment goods will fall even more. For a fall in employment always causes a greater decline in the value of national output at existing prices than in the value of demand for consumption goods and services, because of unemployment benefits and allowances; and because, even in the absence of these, there is a tendency to cut savings as well as consumption and thus to reduce the demand for consumption goods and services by less than the fall in the national income (which is equal to the national output). Thus, unemployment caused by a scarcity of transport, raw materials, etc., will widen the gap between demand and supply and will necessitate the application of more stringent controls and rationing. If there are bottlenecks in the consumption goods sector, it is the scarcity of these goods that will be intensified. If bottlenecks appear in the investment goods sector, the demand for consumption goods will be somewhat reduced because of the resulting unemployment, but the supply of investment goods will be reduced even more.<sup>1</sup>

If the shortage of factors of production supplementary to labour is of such a character as to cause general unemployment (for instance, a serious dislocation in the transport system) not much can be done to relieve it, except to overcome the bottlenecks. If only particular sections are affected, unemployment may be reduced by transferring labour from the industries in which materials or equipment are scarce to those where they are available (in particular by using idle labour for public works requiring a small amount of materials and equipment). Such a transfer may, however, encounter serious difficulties owing to the limited mobility of labour. It is true that after the war many people will, as a result of wartime transfers, be accustomed to a variety of jobs and this will increase the mobility of labour. Nevertheless, transfer from one locality to another will still constitute a difficult problem.

But even if it is possible to overcome sectional unemployment which results from shortage of certain factors of production the situation would still present serious disadvantages. The structure of employment would in that case be determined, not by reasonable social priorities, but by the structure of existing supply of raw materials and plant, which may be purely accidental, as a result of war damage and disruption of international trade. For instance, sectional unemployment might be absorbed by the production of luxury goods while at the same time agricultural implements are in extremely short supply; or a considerable amount of labour

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<sup>1</sup> The position would be different from that described above if unemployment created a panic which prevented the "piled-up" demand from becoming effective. (Cf. Chapter II, p. 12.)

might be employed on public works, not because these works are the most urgent task of the moment, but simply because no alternative employment is available on account of shortages of raw materials, etc.

It follows that economic policy should aim at eliminating as far as possible bottlenecks of transport, sources of power, raw materials, productive equipment, and specific types of labour. These bottlenecks will make their appearance in an acute form mainly in liberated countries. It is true that even in the United States and other excess-savings countries frictional unemployment may arise because the absorption of workers released by a cut in war production is hindered by the reconversion time lag. But such unemployment is likely to be of short duration<sup>1</sup> and even this can be prevented by public investment (see Chapters II and V). In the early transition period the position in Great Britain will be similar; but later, when Lend-Lease and Mutual-Aid supplies are stopped, that country will face the problem of financing adequate imports of raw materials. This leads up to the central point of the international policy required to remove the bottlenecks of transport, raw materials, etc., which consists mainly in an appropriate organisation of international relief, capital movements and trade in the transition period, so as to provide the countries concerned with the means of obtaining the imports they require to secure a high level of useful employment. This is of particular importance for the liberated countries in the period immediately following the termination of hostilities in Europe, when bottlenecks of transport and sources of power are extremely acute. This subject is examined in detail in Chapter VIII, which deals with international trade and capital movements. In the remainder of this chapter brief consideration is given, point by point, to the repercussions of shortages of transport, sources of power, productive equipment, and specific types of labour, on the level and structure of employment.

#### SHOR<sup>TAGE</sup> OF TRANSPORT

It is obvious that an acute shortage of transport has a disastrous effect upon output and employment. Shortage of shipping and port facilities hinders imports. But usually the effect of shortages in internal transport resulting from scarcity of rolling stock and lorries and from damage to railways and bridges is of even greater importance. The paralytic of an economy because of lack of

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<sup>1</sup> Unless it creates a panic which prevents the "piled-up" demand from becoming effective. (Cf. footnote 1, p. 26.)

transport tends to be self-perpetuating if it affects, *inter alia*, industries producing transport equipment, rails, etc., and thus makes it difficult to restore the transport system. The position in France<sup>1</sup> and perhaps even more in Italy may serve as good examples; in both cases, however, shortage of coal (which is dealt with below) is an equally important factor.

Since the termination of the European war the transport situation in the liberated countries has been gradually easing as a result of the release of rolling stock and lorries by the military authorities. This may contribute towards further recovery of the transport system, because it facilitates, among other things, the production of transport equipment, etc., in the countries concerned. Nevertheless, in order to achieve a speedy recovery, imports of transport equipment, etc., may be essential. Such deliveries are especially important where railway tracks are seriously damaged and the materials needed for their restoration cannot be immediately produced in the country.

#### SHORTAGE OF SOURCES OF POWER

Sources of power are as much a key factor for industrial production as transport. The analogy with transport problems is especially close in the case of the production and distribution of electricity. Here, as in the case of railways, imports are necessary in order to speed up the restoration of power stations, transformers, etc., especially when the goods in question cannot be immediately produced in the countries concerned. Much graver, however, is the problem of the scarcity of coal.

There is, of course, an initial period during which many mines are being put back into working order (and this may require a long time in the case of mines which have been flooded). In addition, there is a shortage of miners in Europe, which is likely to last for some time. This is a special case of the general problem of scarcity of specific types of labour, which is dealt with below, but this particular case may more conveniently be discussed here.

The shortage of miners results from there having been no new recruits to coal mining during the war, from casualties, and from the fact that, especially in continental Europe, many miners have left the mines. On the other hand, low output per miner makes it necessary to have a larger number of miners than before the war. This is due to the increase in the average age of the miners as

<sup>1</sup> Non-military freight car loadings on French railways were, at the end of 1944, about 40 per cent. of the corresponding 1943 level and about 20 per cent. of the 1938 level. By April 1945, the car loadings increased to about 35 per cent. of the corresponding 1938 level.

compared with pre-war, undernourishment past and present, etc. It shows itself both in a low productivity per working miner while at work and in a high degree of absenteeism.<sup>1</sup> It should be added that the number of miners in the future may tend to decline, for mining is a dangerous occupation and has a past record of relatively low wages and of unemployment, whereas if the objective of full employment is achieved there will be no difficulty in finding alternative jobs.

To remedy the situation the following measures may be considered:

- (1) Mechanisation of mines, which may involve a demand for imports of the appropriate machinery<sup>2</sup>;
- (2) Wages for miners which are high in relation to other wages and improvements in safety;
- (3) Special food rations for the miners as long as rationing continues; and
- (4) Early pensioning and a high level of pensions.

It will take some time, however, for these measures to be put into effect and to achieve tangible results. In the initial period, an acute shortage of coal in Europe, both because of damage to mines and shortage of miners, is imminent. This situation may be relieved somewhat by imports of pig iron and steel from the United States, thus releasing coal from pig iron and steel production, which requires large quantities of it, for use in other industries. In the winter of 1945-46 the situation is expected to be so critical that imports of coal from the United States are under consideration.

#### SHORTAGE OF RAW MATERIALS

In contrast to bottlenecks of transport and sources of energy, shortage of a specific raw material usually affects output and employment only of one industry or a group of industries but not of the economy as a whole. Some chemicals, however, are used in many industries. Sometimes, moreover, the industries affected are very important from the point of view of reconstruction and development of the whole transport and industrial system. Scarcity of steel, for instance, hinders the production of transport and industrial equipment and thus upsets the progress of reconstruction.

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<sup>1</sup> In France at the end of 1944, the productivity per shift per miner was 26 per cent. lower than in 1938. The "abnormal absenteeism" (*i.e.*, as compared with 1938) was 13 per cent.

<sup>2</sup> And perhaps also the burning of coal in mines, as in the U.S.S.R.

In any case, however, the scarcity of specific raw materials causes unemployment in the industries concerned. Even if it is possible to absorb the unemployed labour in other industries, the structure of employment will not correspond in general to reasonable social priorities.<sup>1</sup> Thus imports of necessary raw materials are of paramount importance for a more or less normal functioning of the economies in question. Imports of raw materials may, however, prove inadequate in the first stage of the transition period as a result of the shortage of shipping and a world shortage of certain raw materials. In that case the facilities for production of synthetic raw materials in Europe should be fully used to fill the gap in supplies.

#### SHORTAGE OF INDUSTRIAL EQUIPMENT

The shortage of industrial equipment is mainly due to:

- (a) war damage;
- (b) conversion of some plants from "civilian" to war use, so that after the war reconversion is necessary; and
- (c) inability (mainly in the "civilian" sector) to make good wear and tear during the war.

If the war damage to industrial equipment is not very great (and this seems to be the case both in Great Britain and in France) it will be possible to restore it to working order in a rather short period. This is not to say that all the deficiency of investment during the war will be made good quickly. But it seems likely that it will not take much time to "patch up" the equipment so as to enable it to work, although in many cases with a less than pre-war productivity. As reconstruction proceeds, a fundamental overhauling of equipment will take place and finally productivity as a result of large investment in up-to-date equipment will reach a considerably higher level than before the war.

In the initial period of reconversion, repairs, etc., imports of certain elements of equipment may be of fundamental importance for accelerating the process of restoring plant and machinery to "provisional" working order (as is the case in the restoration of transport facilities discussed above). For countries with under-developed investment goods industries, imports of machinery will continue to be essential during the whole reconstruction period in order to speed up the overhauling and modernisation of productive equipment. The same is true of transport and power-station equipment, etc.

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<sup>1</sup> Cf. p. 26.

### SHORTAGES OF SPECIFIC TYPES OF LABOUR

One case of scarcity of labour of a particular type has been discussed above, namely that of coal miners. This case is, however, not typical of the scarcity of specific types of labour in general. For coal mining is a "key industry", so that the shortage of coal miners (either owing to a decline in their number or to the reduced productivity of labour) affects output and employment in the economy as a whole. Other shortages of specific types of labour may cause some unemployment only in a rather narrow field of related industries. It is doubtful whether the proportion of available labour in related industries will be so distorted throughout the economy that this sectional unemployment will constitute a serious problem. The same will probably be true of the scarcity of skilled in relation to unskilled labour in a particular industry. First, this scarcity will probably be relatively infrequent, provided the release from the forces and war work is properly handled (see Chapter X); secondly, where it exists, the unskilled labour will be rather easily employed in other industries, since its mobility is relatively high.<sup>1</sup> Of much greater importance will be the impossibility of immediately adjusting the structure of employment to reasonable social priorities and it is in this sense that the "scarcity of specific types of labour" is usually understood. When, for instance, the impending shortage of building labour in Great Britain is discussed, the emphasis is not on a scarcity of building labour in relation to that employed in the production of building materials with resulting unemployment in that industry, or on a shortage of skilled builders causing unemployment of unskilled building labour, but on the fact that for a few years there will not be enough building labour to meet the pressing demand for new houses.

The remedies against the shortage of specific types of labour in this sense are the provision of training facilities and, if necessary, the improvement of wages and conditions in the industry concerned in order to attract labour to it; and, until these measures bear fruit, arranging for imports of the commodities in question or developing methods of production which make it possible to substitute other types of labour for those in short supply. For instance, production of prefabricated houses may be stimulated in the case of a shortage of building labour.

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<sup>1</sup> In Poland, however, the acute shortage of technical and managerial staff seems to be at present a serious bottleneck. In some parts the departure of German workers has created a general shortage of trained labour in relation to existing productive equipment.

### CONCLUSIONS

In many countries during the transition period there will be unemployment of an entirely different type from that which emerges in economic depressions. It will result, not from a deficiency of effective demand, but from a shortage, in relation to the available labour, of transport, sources of power, raw materials and industrial equipment. The shortage of these factors of production may be of such a kind and magnitude that unemployment will be general. If unemployment arises only in some sections it may be to a great extent eliminated by transfer to other industries, and in particular to public works. But even this may not solve the problem fully, for the resulting structure of employment may not correspond to reasonable social priorities.

In order to enable the countries concerned to overcome the bottlenecks in factors supplementary to labour, an organisation of international relief, capital movements and trade should be evolved which makes it possible for them to receive the necessary imports.<sup>1</sup>

Scarcity of labour of a particular type presents in general rather a different problem from the bottlenecks mentioned above. It is likely to create considerable unemployment only in exceptional cases (such as that of the shortage of coal-mining labour). What is meant usually by shortage of a particular type of labour is its inadequacy for meeting a pressing demand for a particular kind of goods. The remedy is to provide training facilities and, if necessary, to make the occupation in question more attractive through improvement of wages and conditions of work; and to relieve the shortage of the goods concerned in the intermediate period by imports or by developing methods of production which can be undertaken with other types of labour.

<sup>1</sup> Cf. Chapter VIII.

## CHAPTER IV

### PRIVATE INVESTMENT

It was pointed out in Chapter II that a high level of employment is dependent on a high level of spending, one of the components of which is private investment expenditure. "Gross private investment" is interpreted as meaning the purchase of capital goods by private enterprise, and includes all outlays on plant, equipment, tools, and additions to stocks. "Net private investment", with which this chapter is primarily concerned, therefore, means net additions to both fixed and working capital.

#### THE VOLUME OF PRIVATE INVESTMENT

Full employment can be maintained at various levels of private investment, provided the other components of total expenditure (consumption, exports, and Government expenditures) are of the right volume. In almost all countries, some net investment will be necessary before the supplies of all peacetime products can be increased enough to meet demand at current prices, and encouragement of net investment is therefore an essential part of transition policy. On the other hand, nearly all countries have excess capacity in at least some peacetime industries, and the output of these industries can be expanded without net investment in plant and equipment merely by allotting men and materials to them. Finally, some men and materials can be used either for expanding current output or for adding to productive capacity. Consequently, rapid increase in consumption in the near future and the achievement of a higher level of consumption in the more distant future are to some extent rival aims of economic policy, and the Governments of all countries must decide how much to stimulate (or permit) net investment and how much to stimulate (or permit) increases in current consumption.

Ideally, every country should have enough up-to-date capital equipment to maximise per capita production. Any country might usefully add to its capital equipment so long as national output of consumers' goods and services can be thereby increased. In reality, no country is in the happy position of having so much capital equipment that an addition to it could add nothing to total pro-

ductivity, and most countries are very far indeed from this ideal position. The question relevant to the transition period is, therefore, "how quickly should the capital structure be built up?"

The answer, in any country, will depend on how far below the ideal level the existing capital structure is, and how much current consumption the population is willing to sacrifice in order to increase consumption in the future. In excess-savings countries, wartime expansion has brought the total volume of capital equipment to a very high level. Investment policy in these countries need not, and perhaps should not, be concerned primarily with increasing the total stock of plant and equipment beyond the level reached in 1945. If the existing volume of capital equipment were fully convertible to peacetime production, net investment would probably be desirable only to take advantage of improvements in technique and to keep pace with the growth of the labour force. If current savings exceeded this rate of investment, the proper policy would probably be to raise the level of consumption relative to savings rather than the level of investment.

In capital-scarcity countries, the choice between rapid expansion of current production and restoration or development of the capital structure will be more difficult, since the need for both will be more pressing. At the same time, the choice will be confined to more narrow limits, since the number of industries with excess capacity will be fewer and the number that require net investment before output can be expanded will be greater. Indeed, in some countries net investment in basic fields such as transportation facilities and housing may be necessary before many industries can resume operations.

In all countries, the opportunities and need for investment to replace capital that has been destroyed, worn out, or become obsolete during the war are likely to be excessive relative to supplies of resources available for investment purposes, unless there are special factors discouraging private investment. Left unchecked, this excessive investment could lead to inflation, as after the last war. On the other hand, as pointed out in Chapter II, if unemployment arising out of demobilisation from the armed forces and war industry is very large and of relatively long duration, expectations of business men may become gloomy, and in that case private investment may fall far below the level desirable during the transition period, thus causing unemployment. If prices are successfully controlled in order to avoid inflation, investment will not have the same stimulus from soaring prices and lagging wages as it had after the last war.

The situation in almost all countries will probably call for a more favourable environment for private investment than has existed during the war, but with more restriction and direction of investment than was characteristic of public policy before the war. Private investment policy in the transition must therefore combine encouragement and restriction. As scarcities of men, materials and machines disappear, Governments can shift gradually to a policy of active support of private investment, if it tends to fall below the desired level. Meanwhile, it will be necessary to ensure net profit expectations high enough to bring forth the desired rate of private investment, while still making it impossible for any enterprise to exploit profit opportunities if, in order to do so, it must utilise resources needed for the Japanese campaign or some essential peacetime purpose, or resources which must be divided among a number of competing uses, if inflation is to be avoided.

Unless the problem of transitional unemployment is very badly handled, however, the general situation will be favourable to investment, and the only encouragement needed will be relaxation of wartime restrictions—direct, fiscal and monetary. Removing direct controls as scarcities disappear would increase revenues more than costs in any industry operating at less than optimum capacity. Reduction of taxes on profits would directly increase net profits. Reduction of interest rates, or sharing of risks by Governments, would also raise profit expectations.

At the same time, it should be remembered that such policies are of limited effectiveness for meeting the kind of unemployment problem that may develop during the transition period in some countries. Where unemployment arises because resources are not available, raising profit expectations may not be enough in itself to eliminate it. The problem must be met by taking all possible steps to make resources available; and supplies of resources cannot be immediately increased merely by abandoning controls. Well-organised labour and materials markets will help.<sup>1</sup> If it is quite impossible to obtain resources in the volume and proportions needed to maintain full employment through private investment and consumption, the problem can be met only by providing employment on public projects of a sort that can be carried out despite existing shortages.

It is, of course, essential that unemployment arising through scarcities should not be allowed to lead to a cumulative down-swing. For this purpose, low interest rates, reduced taxes and measures to reduce risk will be helpful. If deep depression develops

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<sup>1</sup> Cf. Chapters III and X.

and entrepreneurs become pessimistic, such measures will again be of little use by themselves, but during the "breathing spell" in the months immediately following large-scale releases from war industry and the armed services, when many economies will be delicately poised between inflation and deflation, they will have an important place in economic policy. The ease with which the re-employment of men from the armed forces and war industries was accomplished in the United States, Great Britain, and Canada after the last war was to a large degree the result of continuing high deficits and rapid relaxation of controls. There is no reason to suppose that the job can be just as easily done if taxes do not fall as Government expenditures are cut, or if controls are retained in full force. It must also be stressed, however, that tax reduction and relaxation of controls must proceed with exceeding caution if inflation is to be avoided.<sup>1</sup>

#### RELAXATION OF DIRECT CONTROLS

During the war, investment has been limited and guided by direct controls of various sorts. Indirectly, it has been limited by controls over the purchase and sale of consumers' goods (rationing, price ceilings, etc.) and by allocation of manpower and materials for producing consumers' goods. Directly, it has been restricted by licensing of the purchase of new equipment, and by allocation of manpower and materials for the production of capital goods.

So long as resources remain in short supply, it seems desirable to continue allocation of raw materials and licensing of purchases of equipment. As pressure on supplies is alleviated, allocations can be made, and permits to purchase equipment granted, to industries farther and farther down the list of essential undertakings, and allocations to more essential industries can be increased. Limitations on use of materials can be gradually removed, production can gradually return to peacetime methods, and investment can be expected to increase accordingly.

Control of investment can also be exercised through manpower regulations. However, in many countries the war has brought less complete regulation of the labour market than it has of the materials markets. Since direction of labour into definite channels

<sup>1</sup> Professor J. M. CLARK has stated with regard to the second phase of the war "it is not good war policy to permit civilian production to become too invitingly profitable, especially in luxury lines and in the less essential industries generally, since that would increase the difficulty of keeping producers wholeheartedly enlisted in the war effort" (*Demobilization of Wartime Economic Controls* (New York, 1944), (p. 102). Also, during the transition, as G. D. N. WORSWICK has warned, there will be a problem of "prevention of over-investment during the post-war boom leading to excess capacity in the industries in a few years", in *Agenda*, Vol. II, No. 3, p. 17.

restricts personal freedom more than allocation of materials, it is well that this should be the case, so long as the problem of wartime allocation of resources can be satisfactorily solved without more active interference with choice of occupation.<sup>1</sup> For the same reason, private investment during the transition should not be regulated by an unnecessary tightening of manpower controls merely in order to relax other controls. Nevertheless, the situation during the Japanese war may in some cases require tightening of controls over the allocation of manpower, if release of materials for civilian production results in a rush of workers away from war industries to jobs more likely to survive the peace. So far as regulation of private investment is concerned, the proper manpower policy would appear to be retention of whatever controls are necessary for the war effort against Japan, and judicious relaxation of others. Release of manpower for peacetime industries will, of course, have an encouraging effect on private investment.

#### RELAXATION OF FISCAL CONTROLS

The obvious means of reducing costs without diminishing anyone's income is to cut taxes, and tax reduction is perhaps the most widely favoured instrument for encouraging private investment in the transition period. The limitation to the use of this device is evident; taxes are the most effective means of preventing *excessive* spending and inflation. Consequently, the use of tax reduction to encourage investment in the transition period should be exercised with caution. Those taxes should be selected for reduction that weigh most heavily against private investment, while other taxes may have to be retained close to present levels in order to keep total purchasing power from growing to dangerous proportions.

#### *Corporation Income and Excess Profits Taxes*

The taxes impinging most directly on private profits are corporation income and excess profits taxes. The proposals for post-war tax reform that have come from private business men in countries where such taxes exist are almost unanimous in their insistence that these taxes should be reduced.<sup>2</sup> There can be little doubt that

<sup>1</sup> Cf. Chapter X.

<sup>2</sup> See, for example, Research Committee of the Committee for Economic Development: *Postwar Federal Tax Plan for High Employment* (Washington, 1944), *The Twin Cities Plan for Postwar Taxation—a Realistic Approach to the Problem of Federal Taxation* (St. Paul, 1944); Beardsley RUMI and H. C. SONNE: *Fiscal and Monetary Policy* (National Planning Association, Planning Pamphlet, No. 35, Washington, 1944); Lever Bros. and Unilever Ltd.: *The Problem of Us Employment* (London, 1943); Dominion Engineering Works: *Employment—Foundation of Social Security* (Montreal, 1943); "Taxation and Postwar Tasks", in *New Zealand National Review*, 15 Sept. 1944, p. 31. See also Alvin HANSEN and Harley PERLOFF: *State and Local Finance in the National Economy* (New York, 1944), and *Tax Policy*, Oct. 1944.

reduction of corporation income taxes would be stimulating to private investment. It also seems clear that the excess profits tax, at the rates and in the form which characterise wartime excess profits taxation, would not be suitable in a peacetime tax structure. This tax is applied to increases in earnings over some pre-war base period and is therefore a tax on wartime increases in earnings rather than on high earnings as such. It is accordingly inequitable in its burden. As mentioned below, a modified form of excess profits tax might have some place in peacetime fiscal policy, but some current tax systems are a deterrent to new enterprises, and to expansion or increases in efficiency in old ones. Accordingly, Governments will probably find it advisable to reduce the rates of excess profits taxes during the transition period.

An alternative approach to the question of business taxes is to increase the offsets against profits permitted for tax purposes, especially when new investment is undertaken. Under an Order-in-Council of November 1944 (P.C. 8640), *Canada* has introduced a system of allowing depreciation at rates up to double the normal rate for plant and equipment built or acquired during the transition period, wherever such plant and equipment represents new investment, conversion or modernisation, or plants useful both for war and postwar purposes. *The United Kingdom* adopted similar measures in the 1944-45 Budget. A special allowance of 20 per cent. of the original cost of new plant in any year may be deducted from profits of that year. In addition, a special allowance of 10 per cent. is permitted on new factories and industrial buildings, and research expenditure of a capital character is eligible for a depreciation allowance of 20 per cent. in the first year.<sup>1</sup> Beginning with the fiscal year ending 31 March 1944, *New Zealand* allowed taxpayers to deposit with the Commissioner of Taxes sums equivalent to estimated deferred maintenance, which can then be deducted from income in calculating liability for income, social security, and national security taxes.<sup>2</sup> A variant of such schemes is a proposal to impose business taxes, and perhaps personal income taxes as well where no corporation income tax exists, on *gross income before* deduction of depreciation allowances, and at the same time to permit *all* investment in fixed capital, whether for replacement or expansion, to be deducted from the taxable amount.<sup>3</sup>

<sup>1</sup> For a brief discussion of these measures, see T. BALOGH: "The Budget Proposals and Technical Progress", in *Bulletin*, (Oxford Institute of Statistics, 20 May 1944).

<sup>2</sup> Cf. "Deferred Maintenance Expenditure", in *New Zealand National Review*, 15 May 1944, p. 33.

<sup>3</sup> M. KALECKI: *Three Ways to Full Employment*, *op. cit.*, pp. 45-46. If current investment exceeds taxable income, the excess can be carried over for deduction in the next year.

Measures of this sort are more certain to increase investment than simple reductions of corporate income or excess profits tax rates.

The extension of permission to average profits over a greater number of years also has the effect of diminishing the burden of business taxation, since losses of some years can thereby be offset against profits of other years. Where capital gains are taxed as income, liberal offsets for capital losses tend to reduce the net tax burden. All such measures, by increasing the prospect for profit over a period of years, should serve to stimulate private investment.

In Great Britain, Canada and the United States refundable portions of excess profits taxes present another problem with regard to tax policy. Repayment of these refundable portions during the transition period might provide some additional incentive for new investment. There is no assurance, however, that the repayments would be directed entirely into private investment; through increased dividends, some of them may reach the markets for consumer goods still in short supply. The obligation of Governments to repay these refundable portions constitutes an argument for keeping business taxes on a fairly high level for some time. By doing so, Governments may be able to permit the use of refundable portions as offsets to current tax liability at some stage during the transition and thus free future administrations from consideration of this problem.

One plea of business men regarding post-war tax policy is for simplification of business taxation.<sup>1</sup> The need for such simplification is especially apparent in federal countries where the tax jurisdiction is split among two or more levels of government. There is reason to believe that such simplification, even if it did not actually reduce the tax load, would in itself constitute an additional incentive to private investment. It would increase the degree of certainty regarding prospective profits after taxes, and would result in considerable saving of time and energy of business executives in determining their tax obligations.

#### *Personal Income Taxes*

The effects of reducing personal income taxes are much less clear than the effects of reducing business taxes. Income tax structures of the sort ruling in Australia, Canada, Great Britain and the United States impinge on consumer-spending as well as on private investment. Indeed, the current high rates were introduced partly

<sup>1</sup> See, for example, Presidential Address of F. P. L. LANE to the Taxation Conference of the Canadian Manufacturers' Association, in *Industrial Canada*, July 1944.

for the express purpose of restricting consumer purchasing power. At the same time, the present levels and rates of personal income tax may constitute a barrier to new investment, particularly to investment in risky enterprises. It has often been said that these tax systems mean, in effect, that the Government becomes a partner of business with respect to profits but not with respect to losses. Thus, Governments will face something of a dilemma with respect to personal income taxes during the transition period. Reduction of personal income tax rates, especially in the higher brackets, would almost certainly constitute an encouragement to private investment. The danger is that such a reduction would also tend to increase the pressure upon prices of consumer goods. Reductions in personal income tax undertaken for the purpose of stimulating private investment might have to be offset by tighter direct controls of consumer spending.

#### *Incentive Taxation*

Private investment can be stimulated not only by reduction of taxes, but by the imposition of taxes of a sort that make investment desirable in order to avoid paying them. Several varieties of this sort of "incentive taxation" have been suggested. One of these, which was actually in operation in the United States during the 30's, is the "undistributed profits tax". The purpose of this tax was to force distribution of corporation earnings through payment of dividends, on the assumption that a larger share of business earnings would thereby be spent for consumption or investment purposes. The tax aroused great controversy. It appears that the tax was successful in forcing distribution of earnings while it was in operation<sup>1</sup>, but it is not at all certain that such a tax did—or will—actually increase investment. A second variant of "incentive taxation" is a tax on hoarding. The idea of a hoarding tax would be to make it expensive to hold idle cash balances and thereby to force funds into investment or consumption channels.<sup>2</sup> At best, a complete hoarding tax system would be exceedingly complicated from an administrative viewpoint; a more serious defect is that such a tax system might merely drive hoarders into Government obligations or similar assets without increasing consumption or investment directly. A closely related but more complete scheme is the "capital tax" proposed by M. Kalecki<sup>3</sup> and others. Since a

<sup>1</sup> Cf. M. S. KENDRICK: *The Undistributed Profits Tax* (Brookings Institution, 1937).

<sup>2</sup> Cf. ARTHUR DAHLBERG: *When Capital goes on Strike* (New York, 1938). Cf. also Emile DESPRES: "The Proposal to Tax Hoarding" in *American Economic Review Supplement*, Mar. 1939.

<sup>3</sup> See, for example, M. KALECKI: "The General Theory of Commodity, Income and Capital Taxation" in *Economic Journal*, Sept. 1937, and *Three Ways to Full Employment*, *op. cit.*

tax on assets held in any form (liquid or fixed) does not reduce the return to investment, it will not discourage investment as income tax does. If the tax were made to progress with the degree of liquidity of the asset held, it would tend to increase the volume of investment. A somewhat related scheme is to impose a 100 per cent. tax on profits in excess of some "fair" rate of return on "utilised capital", the amount of "utilised capital" being measured in terms of output. The greater the amount of "utilised capital" the greater the amount of profits any firm could retain. Such a tax would, therefore, tend to stimulate both expansion of productive capacity, and fuller utilisation of existing capacity through price reductions.<sup>1</sup>

### RELAXATION OF CREDIT CONTROLS

The final form of wartime control of investment is control over the volume and direction of new lending to business. These controls have, however, played a less important role than direct and fiscal controls. By the same token, their relaxation during the transition will have less effect on investment than relaxation of direct and fiscal controls.

#### *Control of the Capital Market*

Among the major belligerents of the United Nations, Great Britain alone has attempted to control wartime investment through the capital market.<sup>2</sup> At the beginning of the war, an embargo was imposed on new capital issues and only in cases approved by the Capital Issues Committee and the Treasury can a firm raise funds in the capital market. The Treasury also requested the banks to curtail loans for "unessential purposes". It is not surprising, therefore, that Great Britain also proposes to control the flow of loan funds in the transition. In the White Paper on Employment Policy, the Government states that:

The use of capital will have to be controlled to the extent necessary to regulate the flow and direction of investment. Heavy arrears of capital expenditure on buildings, plant and equipment have to be undertaken, and construction on new development must begin. Without control, therefore, there would be a scramble to borrow, leading to a steep rise in rates of interest. The Government are determined to avoid dear money for these urgent construction needs. In this period,

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<sup>1</sup> Cf. Benjamin HIGGINS: "Postwar Tax Policy" in *Canadian Journal of Economics and Political Science*, Aug. and Nov. 1943.

<sup>2</sup> Mention might be made of the American "V", "VT" and "T" Loans, but these were devices for encouraging investment in war plant rather than restricting investment in other industries. Cf. Anna YOUNGMAN: *The Federal Reserve System in Wartime* (National Bureau of Economic Research (Occasional Papers), New York, 1945), pp. 10-14 and 59-64.

therefore, access to the capital market will have to be controlled in order to ensure the proper priorities.<sup>1</sup>

Countries that have no capital market controls obviously cannot encourage investment by relaxing them; and now that VE Day is come, they are unlikely to adopt such controls to restrict and direct investment in the transition.

### *Control of Interest Rates*

Before 1929, the regulation of interest rates through central bank rediscount and open-market policy was considered a powerful weapon for control of private investment. The experience of the 30's, together with new developments in economic analysis, has done much to destroy faith in monetary policy as a device for maintaining full employment. Those interest rates that have the most effect upon investment decisions, such as mortgage loan rates, commercial loan rates, and the interest rates implicit in stock-market prices, proved unresponsive to changes in central bank rates and in yields on Government obligations. Moreover, investors were not encouraged by low rates of interest when profit prospects were very poor. Finally, there proved to be a tendency for low interest rates to reduce the supply of loan funds for risky investments, resulting in the phenomenon of "tight money at low rates".

This unsatisfactory experience with monetary policy in the 30's discredited it in the eyes of many economists; as stated by the League of Nations Delegation on Economic Depressions, it has

made economists sceptical concerning the possibility of arresting a contraction and inducing an expansion by means of easy money and credit policies, although they still admit that an expansion can always be halted and turned into a depression, if credit is sufficiently restricted and interest rates raised. The role assigned to credit policy is thus rather that of a brake than of an accelerator.<sup>2</sup>

During the war, the interest rate has not even been used as a brake. On the contrary, those United Nations whose war effort absorbed the largest share of total production (the United States, the United Kingdom, Canada and Australia—the Soviet Union is a special case) have deliberately "pegged" their interest structures at rates lower than pre-war.

While too much stimulation to private investment cannot be expected from low interest rates alone, these will exert some positive influence upon the level of investment. Consequently, the Governments of several countries have thought it worth while to assure potential investors that the low interest structures developed during

<sup>1</sup> *Employment Policy*, op. cit., p. 9.

<sup>2</sup> LEAGUE OF NATIONS: *Report of the Delegation on Economic Depressions*, Part. II, op. cit., pp. 153-154.

the war will be retained throughout the transition period. In the Report of the Bank of Canada for 1943, the Governor of the Bank stated:

It therefore seems appropriate that the Bank, by reducing its [rediscount] rate, signify its intention to continue the kind of monetary policy which has brought about the current level of interest rates. A policy aimed at higher interest rates would only become intelligible if, after war shortages are over, consumers' expenditure and capital development were to proceed at a rate which would overstrain our productive capacity. I see no prospect of such a situation arising in a form which would call for a policy of rising interest rates.

Similarly, the President of the United States, in his 1945 Budget message, declared:

The management of the public debt has become one of the major financial operations of the Government. To assure effective discharge of these responsibilities and, in particular, to maintain the present low rates of interest, ample powers must be available to the monetary authorities. I shall later recommend legislation reducing the present high gold reserve requirements of the Federal Reserve Bank.<sup>1</sup>

The British Government, while promising continuation of cheap money, also recognises the limitations of interest policy as a means of encouraging high levels of investment:

For some time after the end of the war it will be necessary . . . to maintain a policy of cheap money . . . Monetary policy alone, however, will not be sufficient to defeat the inherent instability of capital expenditure. High interest rates are more effective in preventing excessive investment in periods of prosperity than are low interest rates in encouraging investment in periods of depression.<sup>2</sup>

During the transition the interest rate is unlikely to be used either to encourage or check investment. However, steps may be taken to make money easier at present rates. Several Governments are planning direct attacks on the problem of supplying sufficient credit to finance post-war reconversion and expansion, especially for small and middle-sized businesses. In *Canada*, an "Industrial Development Bank" was established by an Act of 15 August 1944. The chief purpose of this bank is to provide long-term loans to industry, and particularly to small firms. It is designed to supplement the facilities of existing credit institutions, and not to compete with them; it will meet credit needs not easily satisfied by the existing commercial banks, trust companies, and other private lending organisations. It plans especially to fill the gap between short-term loans provided by the chartered banks, and permanent financing through the capital market.

<sup>1</sup> *The Budget of the United States Government for the Fiscal Year Ending 30 June 1946* (Washington, 1945), p. XIX. Such legislation was in fact passed by an Act of June 1945 (Public Law 84, 79th Congress).

<sup>2</sup> *Employment Policy*, *op. cit.*, p. 20.

The *United Kingdom* has set up two new credit institutions. The first of these, the Finance Corporation for Industry, is owned by the Bank of England, the insurance companies, and the trust companies, which hold respectively 30 per cent., 40 per cent., and 30 per cent. of the total capital. The stated purpose of the Finance Corporation is "the provision of temporary or longer period finance for industrial businesses of the country with a view to their quick rehabilitation and development in the national interests, thereby assisting in the maintenance and increase of employment". It will take no initiative in the reorganisation of industry and will confine its activities to the provision of finance. The second new institution is the Industrial and Commercial Finance Corporation, whose function is to provide medium and long-term loans for small and middle-sized businesses. The Government of the *Union of South Africa* set up an Industrial Development Corporation, in October 1940, with funds voted by Parliament to assist in financing new industries or expansion of old ones. Its functions are illustrated by the largest financial undertaking in which the Corporation has thus far engaged, a new woollen textile factory which will cost £750 million. Up to April 1945, it had made 46 loans totalling £1.8 million.<sup>1</sup> Argentina established an "Industrial Credit Bank" on 3 April 1944 which began active operations in September of that year. The capital of the Bank is contributed by the Government, and the Bank is authorised to issue bonds and to borrow from the Bank of the Argentine Nation. The Bank is empowered to grant credits for the establishment and development of every kind of industry, but preference is given to medium and small industries, to those industries which contribute to national defence, and to those which employ national raw materials. The credits are to be granted for a period of three to five years, with gradual amortisation (usually 10 per cent. per annum). Interest is fixed at 5½ per cent., but in certain circumstances it may be reduced by 1 per cent.<sup>2</sup> The *United States* had a number of specialised credit institutions when the war began. The Reconstruction Finance Corporation, the Commodity Credit Corporation, the Export-Import Bank, the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Co-operatives, the National Housing Agency and Productive Credit Corporations, and others, have among them

<sup>1</sup> Cf. *Statist*, Feb. 3 1945, p. 102; *Foreign Commerce Weekly*, 14 Apr. 1945, p. 25.

<sup>2</sup> *Argentine News*, Sept. 1944, p. 15; *Boletín Informativo de Legislación Argentina*, May 1944, p. 3; *The Guaranty Survey*, 25 July 1944, p. 15.

lending powers even broader than those provided by the new legislation of Great Britain, Canada and South Africa. Chile also entered the war period with an "Industrial Development Corporation" already established.<sup>1</sup>

Such institutions will be useful in the transition, not only because they will support investment in general, but even more because they will help small and middle-sized firms to re-establish themselves and so check the tendency towards monopoly.<sup>2</sup>

### REDUCING RISKS

Government measures to reduce the degree of risk attached to private investment are equivalent in their effects to a reduction of the rate of interest or an increase in the rate of profits. Some devices for reducing risk in connection with tax policy have already been mentioned. There are, however, more direct means through which a Government can share the risks of enterprise. The guaranteeing of minimum rates of return is the most obvious of these. The mortgage loans made under the United States National Housing Act are an example of such underwriting. The U.S. Federal Deposit Insurance Corporation operates on a similar principle. Another possibility is for the Government to subscribe part of the capital for risky undertakings. This device is used for the financing of housing under the Canadian National Housing Act. The Canadian Government subscribes up to 25 per cent. of the mortgage capital at rates equal to the going rate on long-term bonds, and also makes a subscription to a Guarantee Fund held against losses. These principles might conceivably be extended to other fields of enterprise that are considered to be of social importance.

Subsidisation of unprofitable but socially desirable investments may also be considered under this heading. Rent subsidies paid on public housing projects are a case in point. These subsidies might conceivably be made available to private corporations undertaking to construct low-cost housing. Indeed, the Canadian National Housing Act of 1944 makes such a provision. The "urban redevelopment" laws of some of the American States provide for a species of subsidisation to private housing corporations, by making available to them public powers of expropriation of land, and by providing a measure of tax exemption.

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<sup>1</sup> Cf. *Economist* (London), 27 Jan. 1945, pp. 117, 120.

<sup>2</sup> Cf. Corporación de Fomento de la Producción: *Cinco Años de Labor, 1939-41* (Santiago, 1944).

### CONCLUSIONS

Investment policy in all the United Nations must aim at balancing four objectives: continuation of the war effort on whatever scale is needed for speedy termination of the Japanese campaign, maintenance of the national income at a level sufficient to ensure a high level of employment, elimination of civilian shortages as rapidly as possible, and avoiding inflation. Such a policy seems to call for judicious relaxation of direct control and selected tax reductions as scarcities of resources needed for investment disappear; keeping interest rates low, and easing the flow of credit to small and new businesses; and continued or expanded Government sharing of risks in fields of primary social and economic importance.

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## CHAPTER V

### PUBLIC INVESTMENT<sup>1</sup>

Public investment has certain advantages over private investment for employment policy in the transition period. First, public investment need not be limited by considerations of profitability, in cases where profits do not accurately reflect the relative social desirability of various projects.<sup>2</sup> Secondly, Governments are better able to combine resources in the unusual combinations in which, because of scarcities, they may be available during the transition period; they are therefore in a better position to maintain a high level of employment than are private concerns required to earn a return on their investment. Thirdly, public investment during the transition period need not, as private investment must, intensify the problem of maintaining full employment when the

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<sup>1</sup> The discussion of this problem in this Report is short, partly because the planning of public works was considered by the Conference at its 26th Session, and partly because a more detailed study is being undertaken by the Office for the International Development Works Committee. For the purpose of the present chapter, the term "public investment" is limited to purchases of capital goods by public authorities, and includes public works. At its first meeting in 1938, the International Public Works Committee (as it was then called) defined "public works" so as to include "all works undertaken by central, regional or local authorities, or with the aid of subsidies or loans, from such authorities or supervised by them". With so broad a definition, however, the distinction between policies designed to regulate the volume of public investment, and those concerned with the regulation of private investment is not easy to draw, and it is accordingly inconvenient for the purpose of this Report. Encouragement of an enlarged scale of activity by means of Government subsidies, or through loans at low rates of interest from Government institutions, which would be "public works" under the Committee definition, is not an essentially different sort of economic policy from encouragement by reduced rates of corporation income tax or increased depreciation allowances, which would be private investment under that definition. Accordingly, it has seemed preferable to make the distinction in terms of ownership.

<sup>2</sup> As Professor Alvin HANSEN has stated in his recent book: "Governments can look beyond the direct return to the general effect of the project in question upon the prosperity of their economics as a whole and upon the world economy. Governments, in short, can look to both the direct and indirect effects of any project. Governments can, therefore, afford to take a larger risk than could private financial investments. It does not mean that they will not be prudent in making their investments. It does mean that Governments can support basic development projects upon which other profitable development rests but which themselves may be relatively unprofitable." (Alvin H. HANSEN: *America's Role in the World Economy* (New York, 1945), pp. 46-47).

transition is over. Private investment, if it is successful, adds to the stock of capital equipment and thereby tends to reduce the rate of return on still further additions to capital.<sup>1</sup> Public investment, since it need not compete with existing private investment, and may even supplement it, will not necessarily reduce the rate of profit and may raise it.

This is not to deny that in many countries the fields of investment in which expansion is most needed are those traditionally exploited by private investment. Many Governments will hesitate to trespass on areas of investment now left to private entrepreneurs, and it would clearly be foolish to concentrate investment in the traditional public spheres merely because public authorities need not worry about present or future profits, and to forgo projects in the private sphere that would add more to social welfare. If high risk or low profits are a barrier to resumption or expansion of business activities in this sphere, the Government can help by reducing risk or raising profits, as shown in the preceding chapter.

In the transition period, it is likely that the major contribution of public investment to the maintenance of a high level of employment will be in executing reconstruction and development projects. Indeed, public investment policy, like private investment policy, must consist partly of measures to restrict enterprise in fields of less pressing importance. On the other hand, as suggested in Chapter II, it is possible that useful public investment projects may have to be undertaken in excess-savings countries, even during the transition, in order to provide jobs for unemployed workers.

It may be recalled that the Public Works (National Planning) Recommendation, 1944, adopted by the Conference at Philadelphia, recommends: (a) that a long-term development programme be prepared, (b) that special attention be paid to timing public works and orders for supplies so as to limit the demand for labour when there is full employment and to increase it when there is unemployment, (c) that in applying this policy consideration be given to the situation in each area of the country concerned and to the particular types of skill available there, and (d) that local authorities and others responsible for framing schemes for employment be

<sup>1</sup> "Investment considered as expenditure is the source of prosperity, and every increase of it improves business and stimulates a further rise of investment. But at the same time every investment is an addition to capital equipment and right from birth it competes with the older generation of this equipment. The tragedy of investment is that it causes crises because it is useful." (M. KALECKI: *Essays on the Theory of Economic Fluctuations* (London, 1939), pp. 148-9. See also his "Full Employment by Stimulating Public Investment?" in *Oxford Economic Papers*, No. 7, Mar. 1945.

informed by their central authorities at the earliest possible moment what financial support will be forthcoming.

### EXCESS-SAVINGS COUNTRIES

Public investment policy in excess-savings countries should not be primarily concerned with making net additions to capital equipment. It should, rather, be directed mainly towards facilitating reconversion, maintaining economic stability, and adding directly to the flow of goods and services. In broad terms, such an objective implies limiting public investment to a small enough volume to avoid inflation, and keeping it high enough to avoid unemployment. There is a substantial "pent-up demand" for repairs and additions to public capital equipment—streets, sewers, and roads, Government office buildings, public housing developments, hospitals and schools, and so forth. In the year following VE Day, it may prove impossible to fulfil all these demands of public authorities, since there may still be shortages of some materials and of some types of skilled labour. At the same time, it may prove desirable to provide temporary employment for workers released from those war industries that will not be required to operate at 100 per cent. capacity during the Japanese campaign. The kinds of workers needed to operate factories are not identical with the kinds needed to reconvert them, and the number of workers needed for conversion may be less than the number needed for operation. Some types of labour will therefore be laid off while reconversion is taking place. Others will be out of work because the materials or new equipment necessary to utilise their special skill cannot yet be purchased in sufficient quantities.

The end of the Japanese war may give rise to conditions in which public investment will be necessary to prevent unemployment. Unless a substantial amount of reconversion has already been completed, so that consumer-spending can be safely permitted and even encouraged to reach very high levels, while at the same time completion of the reconversion task and development of new fields of enterprise keeps private investment on an unusually large scale, such a policy (or a policy of encouraging still greater exports) will probably be necessary.

To the extent that unemployment takes the form of workers temporarily laid off while retooling takes place, questions might be raised as to the suitability of public investment for meeting the problem. It has been argued that public investment projects cannot be timed to fit a period of unemployment of only six months

or a year. However, experience with public investment projects in the United States suggests that this argument is without foundation, if most of the men and women who become unemployed remain without work for more than three months. The average period of construction for various types of Public Works Administration projects before the war costing between \$10,000 and \$25,000 was only three to five months. Projects costing \$50,000 to \$75,000 required an average of six to nine months. A study of State and local Government projects submitted to the United States Public Works Reserve indicated that the great bulk of projects being prepared by these Governments could be finished in less than eight months.<sup>1</sup> Such being the case, a programme of public investment that included a substantial number of relatively small projects could be rapidly tapered off after some six months of operation by not replacing projects as they were completed. Restricting the volume of public investment so as not to compete with private enterprise for resources as private investment increases does not involve leaving projects unfinished. Such difficulties as there are in timing public investment, so as to provide employment when needed, lie in the expansion phase rather than the contraction phase.

It is, of course, undesirable to develop a public investment programme for employment purposes that needs materials or types of equipment that are scarce from the beginning of the programme. As a rule, it will be possible to find useful projects that will require negligible quantities of resources that would otherwise be employed. Where such projects are not available in sufficient volume, it may be necessary to restrict public investment to projects so badly needed for their own sake that some private undertakings must be sacrificed for them.

It is important to note that the effects of public investment on employment, incomes and prices depend very much upon the methods chosen to finance it. If public investment is financed through taxation, it makes no indirect contribution to income or employment. Such public investment merely takes money out of some pockets and puts it in others. Any secondary effects that it has must depend on differences in the spending habits of those from whose pockets the money is taken and those into whose pockets it is paid. If the taxes fall on the upper income groups who tend to save a large share of their incomes, and public investment involves payment to people who spend virtually all of their incomes, the net result will be an increase in total consumer-

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<sup>1</sup> Cf. Benjamin HIGGINS: "The United States Public Works Reserve", in *International Labour Review*, Vol. L, No. 5, Nov. 1944, pp. 581-602.

spending. Unless this process reduces private investment by an amount offsetting both the rise in consumer-spending and the increase in Government spending — a highly unlikely event — there will be a rise in income and employment. If on the other hand taxes fall on people in the lower income groups (as commodity taxes do) and outlays go largely into the pockets of relatively wealthy entrepreneurs (as may happen if a large share of the cost goes for certain construction materials) it is conceivable that the negative indirect effect of public investment might even outweigh the positive direct effect upon the level of income and employment. Exactly the same sort of argument applies to self-liquidating public works. To the extent that fees or prices are collected for public services, the net contribution of public investment to income and employment is reduced.

When public investment is financed by deficits, the offsetting effects on private spending of taxes or fees are avoided. Thus, if public investment is undertaken partly for the purpose of raising the level of income and employment, it should be loan-financed as recommended in the Public Works (National Planning) Recommendation, 1937. If, on the other hand, it is undertaken solely because it is necessary for reconstruction or development, in a general environment of inflationary pressures on prices, public investment should be financed by taxes or fees.

### CAPITAL-SCARCITY COUNTRIES

In contrast to excess-savings countries, the objective of public investment in capital-scarcity countries will be primarily to add to the productive equipment of the economy. Whether the inadequacy of plant and equipment is the result of development retarded by the war or of wartime devastation, the purpose of public investment will be to help provide the tools necessary for high levels of production and employment.

Clearly, the task of reconstruction in the devastated areas will be too big and in parts too unprofitable to be handled by private enterprise alone. Public buildings that have been demolished must be replaced with public funds. More workers' tenements have been destroyed by bombing than millionaires' mansions, and there is no reason to expect that private financial resources will be distributed exactly in accordance with reconstruction needs. Much of the need lies in spheres that have become traditional areas of public enterprise; canals, docks and harbours, roads, railways and hydro-electric systems constitute some of the most pressing needs for reconstruction. The same is true of soil conserva-

tion, flood control, reafforestation, irrigation, rural electrification and other spheres of investment requiring huge amounts of capital, and foresight extending over many decades, for their successful prosecution.

The principal problems will be much the same as in excess-savings countries. It will be necessary to restrict the total level of public investment sufficiently to prevent inflation, and to make sure that resources are made available to those public projects for which the need is most pressing. Integration of public with private investment so as to achieve the best balance between rapid reconstruction and development and economic stability will be necessary in both categories of country. The chief difference will be that the necessity of making unpleasant choices between more rapid increase in output of scarce consumers' goods and a greater productive capacity for the future will last for years in capital-scarcity countries and only for months in excess-savings countries.

The chief problem in both categories of country will be to obtain a sufficiently rapid expansion of public investment to achieve the objectives of public investment policy. The key to rapid and efficient expansion clearly lies in advance planning of public investment. This fact is borne out in convincing manner by the experience of various Governments with public investment during the 30's. The failure to time public investment so as to offset fluctuations in private employment, in accordance with the principle laid down in a Recommendation of the very first session of the International Labour Conference in 1919, was due partly to lack of acceptance of this principle by the Governments in power in 1929. However, many Governments did undertake to stimulate recovery by means of public investment at one stage or another of the great depression, and in nearly every case they encountered obstacles arising out of inadequate advance planning.

#### PROBLEMS OF PLANNING PUBLIC INVESTMENT

The preparation of a "shelf" of useful public investment projects, whether for the purpose of economic stabilisation or for reconstruction and development, is a complicated and time-consuming procedure. Numerous obstacles to a rapid expansion of public investment will be encountered unless all the various steps that must be taken before men can be put to work have been taken in advance. In the absence of advance planning, disastrous delays or misallocation of resources of the sort that occurred in the 30's are likely to appear again in the transition period.

Legal and administrative barriers to rapid expansion of public investment expenditures have been among the most frequent and most serious causes of delay. If public investment is to be quickly expanded, the agencies concerned should be as close to full working order as possible before the need for expansion appears.<sup>1</sup> In addition, it is probably necessary to have projects approved and funds appropriated in advance. If the projects are to be undertaken by private contractors, it would also help to have contracts let in advance, if at all possible.

One of the most time-consuming of the legal operations preliminary to the launching of construction projects is the acquisition of sites. There is widespread agreement among public investment planners that, in order to obtain sites quickly at reasonable costs, public authorities should have wide powers of expropriation. Indeed, many community planners think that ownership of all land by central, regional, or local Government authorities is necessary to efficient land utilisation. Other writers have recommended the pooling of large areas in the hands of private owners, subject to public regulations. The British Expert Committee on Compensation and Betterment (Uthwatt Committee) recommended nationalisation of the development rights of land. The Town and Country Planning Act finally passed in Great Britain is less far-reaching, but it provides for considerable control of land use by the central Government, and for a wide range of expropriation powers for reconstruction, industrial relocation, urban redevelopment, and planning purposes. While considered inadequate by some professional community planners, it nevertheless represents considerable progress in techniques of site-acquisition over those prevailing in most countries.

Finally, the various phases of community planning must be undertaken in advance if haphazard public investment programmes are to be avoided. The establishment of priority ratings for public investment projects will be a particularly difficult phase of planning during the transition period. No set of criteria acceptable for all times and places has ever been laid down, but it might be

<sup>1</sup> Lack of organisation for the purpose was one of the major causes of delay in the American public works programme in the 30's. It took nearly a year to award 90 per cent. of the contracts made under the 1933 appropriation of the Public Works Administration. Five years later, when additional funds became available, 95 per cent. of the contracts for federal construction were awarded within a month of the appropriation. This sharp contrast shows very clearly the desirability of having public investment agencies in working order when expansion is desired. Similarly, whereas the generous housing subsidies provided by the British Government in 1919 had little effect on residential construction in the following year, the much more limited financial assistance provided under the 1933 legislation led to a marked expansion in construction by local authorities, since meanwhile municipal housing departments had been fully organised.

possible as a preliminary step to rate projects according to whether they are: (a) essential to life, health or safety, (b) essential to the economic activity of the community, (c) essential to social welfare, or (d) essential for cultural and aesthetic development. Within each category, ratings must be largely of an *ad hoc* nature, but should be assigned with the best possible judgment.

Planning public investment as well as its execution requires the organisation of competent agencies, the staffing of these agencies with competent personnel, and the passage of enabling legislation. Training skilled personnel for the task is a prerequisite to the whole process in any country where the number of qualified experts on community planning is insufficient for the task at hand; and there are few countries that would fall outside this classification.

It is, of course, already too late to make advance preparation for public investment projects to be undertaken in the first phase of the transition—that is, the shift from war in two theatres to war in the Eastern theatre alone. It may be that lack of organisation, enabling legislation, sites, and planning has already resulted in some misdirection of public investment. It may even be too late to make advance preparation for phase two of the transition—the final shift from war to peace—especially in the excess-savings countries, where the transition will not be long. The time is short for what needs to be done, and it would seem that all Governments should set about the preparation of their programmes of public investment with all possible speed.

#### PUBLIC INVESTMENT AND INTERNAL MIGRATION

A problem of public investment planning that will be particularly acute in the transition period is the determination of the proper policy regarding the internal migration of workers. Public investment, by providing or not providing jobs, homes, community facilities, and transportation can do much to influence the movement of workers. On the whole, it does not seem desirable that public investment should be utilised to maintain workers in places where opportunities for private employment are poor, unless the public projects are themselves of considerable importance to the national economy. In war industry centres where conversion to peacetime production or immigration of new industries is profitable, public investment might well be used to keep workers there until other jobs open up. In most such places, there will in any case be a need for schools, hospitals, housing and so forth. Where long-run prospects are poor, however, public investment

policy should probably be directed towards facilitating and speeding the migration of workers, by providing transportation to other centres where jobs will soon be open, and by providing housing and community facilities in such centres.

### PUBLIC INVESTMENT AND THE CONSTRUCTION INDUSTRY

In the past, public investment has been closely identified with construction projects. During the transition period, purchases of equipment, resource development, preliminary surveys and research, and other non-construction projects or phases of projects may fit the general economic situation better than construction, especially in the excess-savings countries. At the same time, there can be little doubt that the construction industry will have a role of considerable importance, both for reconstruction and development and for maintaining employment. Wherever construction is considered from the point of view of providing jobs, however, the question arises as to how large a construction industry a country wants. It would be unwise to undertake unnecessary construction in the transition merely to make work, if the result would be the development of capacity in the industry greater than is warranted by the long-run prospects for the industry. Some economists are against the use of the construction industry as a balance-wheel for the economy as a whole, on the ground that such a policy would result in violent fluctuations in the construction and related industries, at least until several years of successful stabilisation of the economy had damped down the fluctuations in private investment.<sup>1</sup> Public construction should in their view be timed in such a way as to stabilise the construction industry itself and other devices should be used to stabilise the economy as a whole.

### CONCLUSIONS

Public investment in the transition should be directed mainly to repairing war damage and otherwise assisting with reconversion and national development, rather than to provision of employment for its own sake. In excess-savings countries, however, public investment undertaken primarily to provide a total volume of spending sufficient to maintain full employment may prove necessary even during the transition. In all countries, public investment may prove desirable to alleviate temporary unemployment arising out of reconversion. Meanwhile, all countries should

<sup>1</sup> Cf. B. RUMI and H. C. SONNE: *Fiscal and Monetary Policy* (National Planning Association, Planning Pamphlet, No. 35, Washington, July 1944); and M. COLEAN: *Stabilising the Construction Industry* (*idem*, No. 41, Jan. 1945).

prepare "shelves" of work for the post-transition period, and take all steps necessary to assure rapid expansion of public investment if and when the need arises. Public investment should not be used to hold workers in localities where the long-run prospects for useful employment are poor, but should rather be used to assist migration to centres where the prospects are good. In determining the composition of the programme, thought should be given to the desirable size of the construction industry and to the disadvantages of excessive fluctuations in the total volume of construction. These conclusions are in line with the Public Works (National Planning) Recommendations, 1937 and 1944.

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## CHAPTER VI

### CONSUMER-SPENDING

As countries emerge from the full war economy into the transition period they are faced with a situation characterised by a relative shortage of consumption goods and a plentiful supply of purchasing power in the hands of individuals. This is a potential inflationary situation, and measures will probably have to be taken to prevent it from developing into a serious inflation.

Purchasing power is plentiful for two reasons. During the war, there have, as a rule, been full employment and relatively high earnings, which, owing to a shortage of goods, have not been spent. Savings have therefore been on a high level, and these savings will be available and will be used, at any rate to some extent, to purchase various kinds of commodities which, for different reasons, it has been impossible to obtain during the war. In addition, in the first stage of the transition it is likely that current income will by itself be sufficient to maintain demand at a level in excess of the supply of commodities at existing prices.

The situation in the countries which have been under enemy occupation differs very much from that of other countries. The shortages in those countries have been even more serious than elsewhere. There has also been a great increase in purchasing power, which is likely, however, to be much more unevenly distributed than in countries which have not been under enemy occupation. Thus in France, for example, the circulation of bank notes alone increased from 129,000 million francs in August 1939 to 605,000 million francs in August 1944, subsequently reduced to 572,000 million francs by the liberation loan. Information is not available on the distribution of this increased purchasing power, but it may be noted that many workers engaged in consumption goods industries received relatively low earnings and that several million workers were in Germany, either as prisoners of war or as forced labourers. These workers are not likely to have any savings. Moreover, owing to the widespread nature of the black market, many workers must have been obliged to spend all their earnings for food and other necessities at very high prices, so that a high proportion of the increased money in circulation must have gone to the producers and sellers of these necessities. Inflation is already a serious problem in the liberated countries. It is difficult

in present circumstances to know exactly what the price levels are, but an estimate has been made that in France in the spring of 1945 official prices were about  $2\frac{1}{2}$  times those of 1939. The prices on the black market are, of course, still higher.

With the increased purchasing power at their disposal, people everywhere will want to buy many things that have been denied to them during the war. This demand for goods may be considered under three headings, namely: non-durable goods, semi-durable goods, and durable goods. The first category consists mainly of food, the second category includes such things as clothing, and the third category includes washing machines, refrigerators, automobiles, etc.

The supply of non-durable and semi-durable consumption goods on the American continent has continued at a fairly high level during the war. In Great Britain and most of the Dominions the supply has been far below the pre-war figure and people have had to do without many things which they would like to have had, while in countries occupied by the enemy people were often deprived of the necessities of life. The current demand for food will continue to exceed the available supply for a considerable time, and consequently rationing will have to be maintained. On the other hand, as a result of pent-up demand, there is likely to be an abnormally high demand for semi-durable goods. There may be something of a scramble to obtain goods of this type unless it can be prevented by appropriate measures. Durable consumption goods have been in short supply everywhere and there is likely to be a big demand for such goods. In countries in which the supply of semi-durable goods has been fairly well maintained, the demand for durable goods will be the major inflationary influence.

The inflationary effect of the demand which has just been referred to is not the only bad effect. There may also be violent fluctuations in the production and sale of consumers' goods with consequent fluctuations in employment in the industries concerned, thus making it more difficult to solve the general employment problem. The increase in the demand for non-durable goods, such as food, is likely to be permanent and to have a stabilising effect on the economy, but this is by no means true of the increased demand for semi-durable and durable goods. "In normal times", says the Delegation on Economic Depressions,

the demand for such goods expresses itself day by day, month by month or season by season as existing supplies on the market are worn out or have become

obsolescent and, if there are no extraneous forces leading to depression or boom, is likely to prove relatively smooth. But, if the great mass of the stock of such goods in the consumers' hands has been worn out with no opportunity of replacement and that opportunity suddenly presents itself, then there will be a sudden scramble for these goods, followed later by a scarcely less sudden collapse of demand, and again later there is likely to be a revival of demand less intense than the first and a subsequent falling off. The reason for this is obvious. The age distribution of the goods in the hands of the public is abnormal and, until slowly over a series of years it smoothes out to a normal age curve for each commodity, irregularities of demand and production will continue to occur.<sup>1</sup>

If the temporary unemployment inevitable in the change-over from a war to a peace economy should be so widespread as to create in people's minds the belief that a period of general unemployment of a more permanent character may be expected, the above dangers would not exist. In that case many people might prefer to maintain their savings and to refrain from using their increased purchasing power for the purchase of goods, and there might possibly be a deficiency of demand in relation to the supply. Such a situation is less likely to arise, however, if there are adequate measures of employment organisation (see Chapter X) and if demobilisation bonuses and unemployment benefits and allowances are adequate to offset the fall in current purchasing power (see Chapter XI). The latter measures might be supplemented, if necessary, by reducing more rapidly than would otherwise be desirable those taxes which bear heavily on consumption.

If, however, unemployment in the transition period is purely temporary, the problem will be one of controlling the spending of the increased purchasing power in order to prevent inflation until the shortages of goods have been overcome. This may be approached in two main ways: (a) by efforts to keep the purchasing power off the market for the time being; and (b) by continuing a direct physical control of the supply of goods.

So far as the first of these approaches is concerned, the most obvious method is to continue indirect and personal income taxes at high levels so long as there are serious shortages of consumers' goods. As the goods become more plentiful, these taxes should be reduced gradually, starting with indirect taxes on necessities and semi-necessities and with taxes on the lower incomes. In certain countries of continental Europe where the accumulated purchasing power of consumers has greatly increased during the war, and where the current supply of goods is, and will for a time continue to be, at a particularly low level, it may be necessary to immobilise

<sup>1</sup> LEAGUE OF NATIONS, Delegation on Economic Depressions: *Transition from War to Peace Economy*, Part I (Geneva, 1943), p. 47.

personal savings by such means as blocking savings, a capital levy, or the taxation of war profits.<sup>1</sup>

It should not be assumed too readily that the people who have accumulated savings during the war, whether in the form of securities or of cash, at any rate in countries in which shortages have not been very severe, will want to dispose of them rapidly and buy consumers' goods on a very large scale. The saving habit which has developed during the war may be continued and, if there were a fear of unemployment occurring at a later date, this would be an added incentive to go slow in the reduction of individual savings. Nevertheless, some savings will certainly be spent for consumers' goods, and it is important that this tendency should be kept within bounds as long as the shortages continue. Some countries, such as Great Britain, for example, have coupled certain increases in direct taxation with an undertaking to repay part of these increases after the war. It is desirable that these repayments should not be made precipitately as soon as hostilities end and it would be helpful if Governments were to spread the repayment over a period of time.

Can anything else be done to prevent purchasing power from being used in such a way as to exert a violent pressure on the price system and thus render the avoidance of inflation much more difficult? One method is to persuade the public to refrain from using it in such a way. It may be that a well-directed publicity campaign with that end in view would meet with success.

The second main approach to a solution of this problem is to continue the physical control of the supply of goods and price control. At its 26th Session at Philadelphia, the Conference has already made recommendations on that point by urging that "with due allowance for differences in national economic situations, programmes for economic reconversion, reconstruction and expansion include the development of sound policies and procedures to provide . . . retention, as long as shortages exist, of such war-created economic controls—for example, price and exchange controls and rationing—as are necessary to prevent inflation, and the relaxation of such controls as rapidly thereafter as is consistent with the public welfare".<sup>2</sup>

<sup>1</sup> In one of the liberated countries, Belgium, a drastic policy of monetary deflation was adopted soon after the liberation of the country with the object of reducing the amount of purchasing power in circulation, of locating and identifying excess purchasing power, and of adapting the money in circulation by degrees to the real needs of the national economy (Cf. Raoul MIRY: "The First Reconstruction Measures in Belgium", in *International Labour Review*, Vol. LI, No. 4, Apr. 1945, pp. 419-432). This policy has, however, been criticised in Belgium on various grounds, notably that by blocking bank deposits it hampers investment. In France, the Government's programme includes a tax on capital (see below).

<sup>2</sup> I.L.O.: *Official Bulletin*, Vol. XXVI, No. 1, 1 June 1944, p. 98.

It is particularly important that price control, which has been operated almost everywhere during the war, should be maintained during the transition. As the Canadian White Paper on *Employment and Income*<sup>1</sup> puts it,

the need for price control and other anti-inflationary measures will not disappear with the end of the European war . . . The store of buying power, which individuals and corporations have accumulated during the war can be of great assistance in sustaining production and employment during the transition from war to peace. On the other hand, it could also be dissipated in a needless inflation, which would defeat orderly reconversion if such buying power were permitted to run wild at a time when civilian production was still restricted and shortages and bottlenecks persisted.

Price control, however, cannot be operated effectively unless there is at the same time quantitative control by such means as rationing. These subjects are discussed in the following chapter.

As the danger of inflation is particularly serious in liberated countries, where severe shortages of goods prevail, reference may be made to the speech by the French Minister of Finance in the Consultative Assembly on 30 March 1945, outlining the Government's financial programme, which he described as definitely anti-inflationary. This programme consists of measures to encourage maximum production in order to provide the goods required, the levying of taxes capable of tapping the largest possible proportion of excess incomes, a publicity campaign in favour of an enormous development of savings, and the rationing of the principal consumption goods. These measures would be supplemented by an exceptional tax on capital affecting above all the real capital gains made during the war.<sup>2</sup>

It should be remembered on the other hand that in the excess-saving countries the period of general scarcity of goods in relation to effective demand may be rather short, especially if the Japanese war should end soon. There may then arise a situation in which effective demand will be inadequate to maintain a high level of employment, while at the same time scarcities of particular goods will continue. In these circumstances measures to support the level of consumer-spending should be considered, along with measures to increase exports or investment, in order to avoid general unemployment, while at the same time price control and rationing of those consumption goods which are still in short supply should continue.

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<sup>1</sup> *Op. cit.*, p. 20.

<sup>2</sup> *Le Monde*, 31 Mar. 1945.

## CHAPTER VII

### PRICES, WAGES AND HOURS

#### PRICES AND WAGES IN A CONTROLLED SYSTEM

As shown in the preceding chapter, a shortage of consumption goods will persist for some time after the war. In some countries nearly all consumption goods will be in short supply, while in others only a certain range of goods will be scarce; the acuteness of various shortages and the length of the period during which they continue will differ from country to country; however, the transition period will be characterised by shortages of one kind or another and price control and rationing will have to be retained until it is safe to abolish them gradually.

In a completely effective system of price control and rationing all prices would be controlled and goods for which the demand exceeds the supply at existing prices would be subject to rationing. (Rationing may be based on physical units, on points or on value; for instance sugar and fats are rationed by weight; clothing in Great Britain by points; a variety of foodstuffs such as tinned meat and fish, dried fruit, rice, peas, biscuits, etc., are covered in Great Britain by a point scheme; meat is rationed in Great Britain by value, etc.<sup>1</sup>). Such a system would consist only of two sectors: (a) the "sector of elastic supply" in which demand is fully met at the controlled price (for instance, bread in the United States, Canada and Great Britain), and (b) the "sector of rationed products" in which demand and supply are adjusted at existing prices by fixing rations at an appropriate level.

In practice such completeness is never achieved, as these two sectors cover only a part of consumption goods and services. The remaining products in short supply are either price-controlled but not rationed (*e.g.*, cigarettes in the United States, razor blades in Great Britain), or are neither price-controlled nor rationed (*e.g.*, fancy goods). If demand exceeds supply at the existing prices, price control without rationing must result in shortages and

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<sup>1</sup> In cases where the shortage of goods is very acute and the needs of a certain group of consumers very pressing, licensing is preferable to rationing. For instance, newly produced furniture is now sold in Great Britain only to couples married after 1939 or to people who have been bombed out.

queues; *i.e.*, a state of haphazard distribution prevails. If there is neither price control nor rationing, equilibrium between demand and supply is achieved by an upward movement of prices. Both the "sector of haphazard distribution" and the "free market sector" are subject to a high pressure of demand, not only because of the high level of demand relative to supply in general, but also because people are prevented from spending as much money as they would like on rationed products, and they therefore tend to purchase more unrationed goods than would otherwise be the case. Strictly speaking only the "free market sector" is inflationary; but in a sense shortages and queues in the "sector of haphazard distribution" are also symptoms of "repressed" inflation (*i.e.*, of a disequilibrium of demand and supply at controlled prices). However, if the "sector of haphazard distribution" and the "free sector" include only luxury goods, or sundry goods the total expenditure on which bears a very small proportion to total personal consumption, the system may be considered to be fairly well safeguarded against inflation. This is particularly so if rationing and price control are accompanied by a progressive income tax which reduces the pressure of demand upon the "sector of haphazard distribution" and the "free sector".

So far only the prices of consumption goods have been considered. In the analysis of the problem of inflation they are of particular importance, for it is their increase, caused by demand exceeding supply at existing prices, that starts the vicious spiral of rising prices and the resulting pressure for higher wages. However, "scarcity prices" should also be prevented in the investment goods sector. For the use to which the resources in this sector are put cannot be left in the transition period to the "highest bidder", but should be determined on the basis of certain priorities which form part of the reconstruction plans. From these requirements there emerges a system not dissimilar to that of rationing in the consumption goods sector. Prices of investment goods may have to be controlled and investment in machines, buildings, etc., may have to be licensed (except small items) in so far as this is necessary for balancing demand and supply at existing prices.

However, the picture of price policy is still not quite complete, for reference is made above only to the prices of goods bought by the ultimate user, but if supply is to be planned the "price bidding" would have to be eliminated from all stages of production. Thus raw materials and semi-manufactures, in short supply and under price control, would have to be allocated to particular industries

and uses according to a certain schedule of priorities<sup>1</sup>, and distributed among manufacturing firms according to certain fixed quotas. This would determine what goods and what quantities of those goods are available to the ultimate user, and rationing and licensing would adjust the demand to the supply at controlled prices.

So far the discussion has been confined to the problem of preventing an inflationary rise in prices under the pressure of demand. There is, however, also a problem of price increase from the cost side. As will be shown in more detail below, a tendency for wage-rates to rise during the transition period may be expected for various reasons. If the influence of this rise on the price level is not counteracted by other factors such as an increase in productivity, a reduction of indirect taxation, and for certain countries (e.g., Great Britain) a fall in ocean freight rates, there will be a tendency for the price level to increase even though the pressure of demand is kept in check by the operation of rationing, licensing, etc. However, if prices are controlled this problem is not insoluble. Prices can in that case be kept constant and the increase in costs would then lead either to a cut in profit margins (*i.e.*, profits per unit of output) or, where this is impracticable, to the granting of a subsidy to the industry in question. Such a subsidy may be of a temporary character. For if in the further course of the transition period the costs of the industry in question are reduced it will be possible to withdraw the subsidy. In certain cases, indeed, the granting of a subsidy may be made conditional upon the introduction of methods reducing the costs of production. It should be added that the price stabilisation policy applies to the prices paid by the *ultimate user*; these can be held down, even though prices of

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<sup>1</sup> See, for instance, the British White Paper on *Employment Policy* (Cmd. 6527) para. 18:

. . . production of unessential goods may interfere with the production of essentials. In order to direct the efforts of industry towards the right tasks in the right order, it will be necessary to establish certain broad priorities and to enforce them for a time by means of the issue of licences, the allocation of raw materials and some measure of control over the labour and staff required for industry. There are three main reasons why this must be done:

(a) During the war we have obtained a large proportion of our imports first by the sale of our foreign assets and later by lend-lease or on credit. This process cannot continue indefinitely; and if we are to be able to buy the imported food and raw materials which we need to maintain our standards of life, we must expand our export trade. An export drive is thus of paramount importance, and home demand—whether for consumption goods or capital expenditure—must not be allowed to divert the resources needed for exports.

(b) Production for the home market must be directed in the first place towards the necessities of civilian life and, until these primary needs are met, resources which could be applied to meet them should not be diverted to the production of luxuries for home consumption.

(c) Production of the capital goods needed to restart and re-equip industry at the highest pitch of efficiency must be rapidly expanded.

raw materials and semi-manufactures are permitted to rise, if "squeezing" of profit margins or subsidisation is applied to the manufacture of finished products.

The advantage of applying subsidies consists in the possibility of stabilising the prices to the ultimate user while at the same time giving adequate production incentives to the producer. The disadvantage of subsidies is that they may degenerate into privileges for certain industries at the expense of the taxpayers. However, if subsidies are used only to compensate for an increase in wages or raw material costs, such a situation is unlikely to occur. Increases in direct costs (wages or raw material costs) are normally passed to the consumer. Thus, granting a subsidy which just offsets such an increase does not raise profits but benefits the users of the products in question.

#### THE BRITISH EXPERIENCE 1941-44

The practicability of the policies described above may be illustrated by the British experience. In 1941, a policy of comprehensive rationing and price control was inaugurated. Its results in 1944 are shown in the following table:

TABLE VI. CONSUMPTION, INCOMES, WAGES AND PRICES IN  
GREAT BRITAIN

(*Percentage Changes from 1941 to 1944*)

Personal expenditure on consumption goods and services corrected for price changes <sup>1</sup>	- 2
Aggregate personal incomes after taxation <sup>1 2</sup>	+ 18
Wage-rates index <sup>3</sup>	+ 20
Index of wholesale prices of industrial manufactures (consumption and investment goods) <sup>4</sup>	+ 7
Cost-of-living index <sup>5</sup>	+ 1
All-round price index of consumption goods and services <sup>1</sup>	+ 13

It will be seen that the value of aggregate personal incomes after taxation rose by 18 per cent. from 1941 to 1944; that simultaneously the volume of supply of consumption goods and services (as measured by personal expenditure on consumption goods and services corrected for price changes) fell by 2 per cent.; and that production costs were pressed up by a 20 per cent. rise in wage

<sup>1</sup> Calculated from the British White Paper on *National Income and Expenditure 1938-44*.

<sup>2</sup> Exclusive of the income in kind of the armed forces.

<sup>3</sup> Professor Bowley's index of average wage rates (London and Cambridge Economic Service).

<sup>4</sup> *Board of Trade Journal*.

<sup>5</sup> *Ministry of Labour Gazette*.

rates. Nevertheless, the wholesale prices of industrial manufactures (consumption and investment goods) rose by only 7 per cent., the cost-of-living index of the Ministry of Labour remained practically stable, and the all-round price index of consumption goods and services increased by 13 per cent. The divergence between the two latter indices is due to the fact that while the cost-of-living index is based mainly on the prices of essential goods which were kept down by the combined effect of rationing, price control and subsidies, the all-round price index of consumption goods and services includes goods whose prices were permitted to rise freely or on which indirect taxation was increased. Without the increases in indirect taxation (which were reflected in prices) the increase in the price index of consumption goods and services would have been considerably less.<sup>1</sup>

It is useful to add, in order to put the above into a proper perspective, that the volume of the supply of consumption goods and services was throughout the period considered about 20 per cent. lower than in 1938.

The British policy of rationing and price control in the period 1941 to 1944 achieved a remarkable success in price stabilisation, and this was accomplished without introducing a wage stop. It must be added, however, that price stabilisation does not reflect all the favourable effects of rationing. In 1941 queues and shortages were widespread, but in 1944 nearly all essential goods were readily obtainable at controlled prices.

#### THE CONTROLLED SYSTEM IN THE PERIOD OF TRANSITION

The functioning of the system described above in general terms and illustrated by the wartime experience of Great Britain may now be considered against the specific background of the period of transition. Two patterns may be distinguished (although there will be many cases which do not exactly fit either of them): (a) that of the countries which have mobilised their resources for war (Great Britain, United States, Canada, Australia, etc.), and (b) that of the liberated countries (France, Belgium, the Netherlands, Czechoslovakia, etc.).

In the countries of the first category at the beginning of the transition period there will be powerful factors at work tending to reduce aggregate personal incomes, namely, the reduction of working hours to normal, the cessation of overtime, night shift, and production bonuses, the shift from industries with higher to

<sup>1</sup> This might have necessitated, however, more comprehensive rationing in order to reduce the gap between demand and supply.

those with lower wage rates, and some unavoidable frictional unemployment.

However, the influence of these factors will be largely offset by forces working in the opposite direction. Demobilisation will increase aggregate personal incomes to the extent to which the civilian incomes of those demobilised exceed their remuneration as soldiers. This effect will, however, be somewhat weakened by the parallel retirement of women from employment. On the other hand, gratuities paid to discharged soldiers will be a temporary addition to aggregate income.

Another important factor tending to increase personal incomes will probably be a rise in wage rates. This is likely to occur mainly for the following reasons. Firstly, the reduction in earnings caused by the shortening of working time will lead trade unions to press for wage rate increases in order to offset at least in part the loss in income. Secondly, as mentioned above, the shift from industries with higher wages to those with lower wages is also likely to be accompanied by a pressure for increasing wage rates in the latter industries. Finally, wages will tend to increase in the industries where there will be an acute shortage of labour (for instance in coal mining and building in many countries).

On balance the aggregate personal income before taxation may fall somewhat at the beginning of the transition period. If, however, purchasing power for consumption goods and services is considered, a reduction in taxation of personal incomes, in particular of low and medium ones, must be taken into account; and, what is more important, it must be remembered that in addition to demand out of current income the "piled up" demand will tend to exert pressure upon the market. This "piled-up" demand, combined with the fact that supplies of consumption goods will expand only gradually, makes it imperative to maintain rationing and price control until the "piled-up" demand has spent itself and current supply is adequate to meet the demand out of current income. To the extent to which larger supplies of consumption goods are made available as time goes by, shortages will grow less acute, rations will increase, and prices in the "free sector" will fall.

The rise in the general level of wage rates mentioned above will tend to push prices up from the cost side. But this influence will be counteracted by a variety of factors. Ocean freights and insurance costs will fall because war risks are reduced by the cessation of German U-boat warfare, and this will be of considerable importance for certain countries (*e.g.*, Great Britain). Average output per head will rise because of the return of young men from the forces which will improve the average skill and the age composition in

many industries; and, what is even more important in the longer run, the postponed process of replacement of industrial equipment which will be carried out in the transition period on a large scale will result in substantial modernisation of equipment and a rise in productivity. Further, the cessation of overtime and nightshift work will reduce the costs because the bonuses involved will cease to be paid. Finally, indirect taxation, where it has been considerably increased during the war, will be gradually reduced and the "scarcity prices" in the "free sector" will fall.

If, however, in spite of these counteracting factors, the price level tends to rise under the influence of wage-rate increases the tendency of prices to rise may be counteracted by "squeezing" of profit margins, particularly where they are high (for instance, in industries where monopoly conditions prevail), and by subsidies.

It should be stressed that the "squeezing" of profit margins will in general be much easier in the transition period than in normal times, for the following reason. During the war aggregate profits before taxation have been much higher than before the war. In the transition period, as a result of the reduction in war taxation, while full employment continues as in wartime, aggregate profits net of tax will be much higher than in the pre-war years. Thus wage increases with prices kept stable will in general be more easily absorbed by industry than would have been the case before the war. If, however, the practicable "squeezing" of profit margins proves inadequate for the stabilisation of the price level, it may be necessary to grant subsidies, as described above.

It is obvious that "squeezing" of profit margins is a redistribution of income from profits (and possibly high salaries) to wages. But the same is true of price subsidies, provided they are financed by taxation of profits and high salaries. Such a redistribution of income tends to stimulate consumption, as relatively less is saved out of wages than out of profits and high salaries. Thus to the extent to which wage increases in the transition period will necessitate "squeezing" of profit margins or price subsidies, they will tend to increase the demand for consumption goods. As a result, balancing of demand and supply will require higher taxes and lower rations than would otherwise be the case and the length of the transition period may be somewhat extended. On the other hand, the redistribution of income from profits and high salaries to wages will facilitate the solution of the employment problem after the transition period to the extent to which the new distribution of the national income is maintained.

Should the redistribution of income from profits to wages cause a reduction of private investment below the desirable level,

appropriate measures should be taken to counteract this effect. In particular, tax benefits of some kind may be granted to the entrepreneurs who undertake capital investment.<sup>1</sup>

The developments in liberated countries differ from the above pattern mainly at the beginning of the transition period. In those countries real wage rates fell substantially under German occupation. After the liberation the trade unions secured considerable increases in money wage rates. At the same time, owing to the general dislocation (especially of transport) the supply of goods is even lower than under the German occupation. In order to prevent inflation, rationing and price control supported by price subsidies should be operated with extreme stringency. To achieve this, however, it is necessary to cope with the problem of the "black market".

#### THE PROBLEM OF THE BLACK MARKET

In discussing the rationing system it has been tacitly assumed that all available supplies are under Government control. This requires that Government agencies should have under full control the distribution of raw materials and finished products, so as to prevent any loopholes through which the goods can reach the consumers outside the rationing system. This again is never fully achieved in practice: some loopholes always remain and some kind of a black market is usually unavoidable. But there is a difference of degree. If the black market is very small in relation to the total supplies passing through the rationing system, it is highly undesirable but has no major effect upon the functioning of the economy. If, however, a considerable part of the supplies is outside the grasp of Government agencies and reaches the consumers outside the rationing system at much higher prices than the official ones, the economy consists of an "official" and a "free" sector, and the latter is of course subject to inflation.

In the United States substantial black markets in some important commodities (especially meat) have been reported to exist. In the liberated countries the position is much more serious as there the black market absorbs a considerable part of the total supply of consumption goods, which is extremely meagre. In France, for instance, although rationing of all important foodstuffs is in operation<sup>2</sup>, a substantial part of the home-produced food is sold by the farmers to black market dealers and smuggled into the towns on lorries whose owners share in the profits. The supplies

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<sup>1</sup> Cf. p. 38

<sup>2</sup> This is not the case in some of the other liberated countries where rationing applies only to a few necessities.

controlled by the Government enable it to provide the population only with very inadequate rations. These are supplemented by purchases in the black market at prices considerably exceeding the official ones. (Bread, in which there is no conspicuous black market, is an exception.) The workers naturally ask for increased wages which will enable them to supplement their rations by buying in the black market. This, however, drives up the prices there, and thus the spiral of wages and prices is started in the "free market sector", which is here — as opposed to an adequately controlled system—of considerable importance.

The simplest way of fighting the black market is probably the control of transport. This is relatively easy in the case of railway transport but presents great difficulties in transport by road. Not only is it necessary at the approaches of big towns to ascertain whether incoming lorries carry cargoes authorised by the Government, but in addition lorries must be escorted to the place of destination and their unloading must be supervised so as to ascertain that no black market consignments are hidden in them. Even if this were done only for a percentage of incoming lorries, the risk of confiscation would be substantially increased and the "free" price paid to the farmers would therefore be reduced considerably. If the Government then increased somewhat the *official* price paid to the farmers (which need not mean an increase in official retail prices provided additional subsidies are granted) it would have a chance of getting hold of at least a part of the black market supplies.

So far the fight against the black market in liberated countries—which, as may be seen from the above paragraphs, requires drastic measures—does not seem in general to have made much headway. (The same is true of the United States, although it would appear that the difficulties involved should be smaller.)

It is clear that with the gradual restoration of agricultural production and normal imports the black market will disappear. This, however, may take a rather long time, during which inflation will make considerable progress. There arises therefore the problem as to how far the situation may be remedied in the near future (a) by the restoration of the transport system, and (b) by substantial food imports over a few months which would provide for the Government concerned a kind of *masse de manoeuvre*.

It is sometimes maintained that the restoration of the transport system to normal would automatically put an end to the black market. This does not seem to be well founded. It may be true that in some cases the Government, if it had adequate transport facilities, could get hold of larger supplies and distribute them.

This is, however, not the general case. The trouble is that food is sold by the farmers to the black market dealers because the prices they are offered are much higher than the official ones. The improvement of transport will not automatically eliminate the black market because the farmers will continue to supply food at "free prices". In fact they regard delivery at official prices as a kind of taxation, the more so as they themselves have to pay black market prices for industrial goods. Improved transport will help only in cases where the Government is able to buy supplies at reasonable prices.

On the other hand "breathing space imports" of food can relieve the situation to a considerable extent. If substantial food imports were concentrated in a short period and were used to increase the rations, this would cause a considerable slackening of demand on the black market. The black market prices, and as a result the "free" prices paid to the farmers, would fall strongly. In these circumstances the Government, by increasing somewhat the official prices paid to the farmers and maintaining the measures against the black market in existence, would be able to collect during the short period in question a large part of the supplies which previously went to the black market. Thus, after the "emergency imports" came to an end, the Government would be left with stocks or contracts for deliveries which would enable it to repeat the procedure and thus prevent the reappearance of the full-scale black market.

So far only the problem of the black market in food has been discussed. Regular imports of raw materials and the resulting restarting of the production of industrial goods would enable the Governments concerned to enforce price control and rationing in this sphere as well. Apart from the importance of increasing the supply of industrial goods at reasonable prices, this would have beneficial effects upon the food situation, since it would improve the relation of official prices paid to the farmers for their produce to the prices of the industrial goods they buy and thus would be an inducement for maintaining or expanding agricultural production.

#### HOURS OF WORK

During the transition period the average working time is likely as a rule to approach the pre-war level closely because overtime work beyond that level will not be frequent. This, however, is not likely to be the case in France, where the 40-hour week was in operation before the war. Overtime may also be applied to a considerable extent where productive capacity is in short supply.

In some instances, however, (e.g., in Great Britain) trade unions have demanded a shortening of working hours below the pre-war level. It is therefore necessary to consider the repercussions of a shortening of hours of work as compared with pre-war during the transition period (or, in the case of France, of the re-establishment of an actual 40-hour working week).

The immediate result of the reduction of actual working time is to reduce the aggregate output which can be achieved by full utilisation of the existing labour. Further, if wage rates are increased so as to offset (wholly or partly) the reduction of earnings, and price stabilisation is achieved by "squeezing" of profit margins or granting of subsidies, the demand for consumption goods at a given level of national income will tend to rise. For, as shown in the preceding section, this will involve a redistribution of income from profits to wages and thus will result in higher consumption. Consequently, a shortening of working hours will have the effect of reducing the demand for consumption goods much less than it will reduce the national output at existing prices; for this demand always tends to fall somewhat less than the national income (which is equal to the national output), since there is a tendency to cut not only consumption but savings as well, and in the case considered this tendency will be reinforced by the effect of the shift from profits to wages. As a result the pressure of demand upon available supplies will increase, and in order to maintain a balance at existing prices, controls and rationing would have to be made more stringent and continue for a longer time. This tendency may be counteracted by maintaining taxation of personal incomes at a relatively high level, but it is unlikely that in practice the effect of even a moderate shortening of hours will be fully offset in this way. The result will be a longer period of transition with a lower level of consumption over the whole period. On the other hand, after the transition period the shorter working hours will facilitate the solution of the post-transition employment problem, though at the cost of a lower level of production than would be possible with longer hours. If the reduction in real earnings as a result of shorter hours is at least partly offset by a rise in real wage rates the resulting redistribution of income from profits to wages will also contribute towards the solution of the employment problem.<sup>1</sup>

It will be seen from the above that reduction of working time below the pre-war level will be difficult in the first stage of the transition period, when supplies will be relatively scanty and the

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<sup>1</sup> Provided appropriate measures are taken to counteract the negative influence of this shift upon private investment (cf. Chapter IV).

pressure of demand very high. However, in the "excess-savings" countries, where the transition period is likely to be short, the situation will ease in the relatively near future. Moreover, after the transition period, the problem of maintaining full employment is likely to be difficult in these countries (in particular in the United States), and a shorter working time coupled with redistribution of incomes would make an important contribution towards the solution of the problem of employment in the post-transition period (although at the cost of a lower national output). In the "capital-scarcity" countries, where the transition period during which consumption will be kept down will be rather long, the position with regard to the reduction of working hours in the near future is much less favourable.

The situation is complicated by the fact that pre-war working time in "excess-savings" countries was already considerably shorter than in "capital-scarcity" countries. It thus appears that it is easiest from the general economic point of view to reduce working time in those countries where it is relatively short already. It should be added, however, that the problem of the reduction of working time in "capital-scarcity" countries would not involve serious difficulties if its effect upon full employment output were to a substantial degree offset by a resulting rise in productivity. The extent to which such a rise is probable cannot be determined without a special enquiry.

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## CHAPTER VIII

### INTERNATIONAL TRADE AND CAPITAL MOVEMENTS

The problems of international trade and of full employment are closely linked together at all times, but in the transition period the relation between the two is particularly close. There are such serious shortages of raw materials, means of transport, and productive equipment in the countries liberated from the enemy that many industries are reduced to very low rates of production and employment. Some of the unemployed labour can be transferred to other work but this is difficult in certain countries dependent on imports, such, for example, as Belgium, where there is considerable unemployment. Even if the labour can be transferred to other work there is little satisfaction in seeing workers with skill in a particular occupation being sent to do general unskilled work elsewhere. On the other hand, in certain exporting countries such as Canada and the United States, exports to the liberated countries can be very helpful in maintaining high levels of employment at certain stages of the transition period.

In the following pages the problems of foreign trade are considered on a rather broad basis, because their solution is necessary, not only for the maintenance of high levels of employment in the supplying and importing countries, but also, through the importation of consumption goods and in particular food in the liberated countries, to enable workers in employment in those countries to do their work satisfactorily and thus to ensure a minimum standard of living. The discussion is divided into two parts. The first is concerned with the import requirements of the countries which have been devastated as a result of the war, and the export capacities of the supplying countries. The second analyses the financial problem of devising ways and means to enable those countries which lack international means of payment to obtain a sufficient volume of imports.

#### NEEDS AND SUPPLIES

##### *Import Needs*

Broadly speaking, the scope of economic reconstruction in each devastated country will cover, with varying degrees of emphasis,

most or all of the following fields: (a) agriculture and husbandry; (b) transport (railway, highway and waterway); (c) fuel and motive-power (coal, petroleum, electricity, etc.); (d) public utilities (telegraph, telephone, tramway, gas, water supply, etc.); (e) building construction (residential housing and public buildings such as schools, libraries, hospitals, etc.); (f) mining; and (g) industries manufacturing both consumption goods and investment goods. For purposes of illustration, the following estimates released by the French Ministry of Reconstruction and Town Planning may be quoted:

TABLE V. ESTIMATED COSTS OF FRENCH RECONSTRUCTION

Principal items	Expenditures	
	In millions of francs	Percentage distribution
Reconstruction of 1,200,000 dwellings	900,000	60.0
Replacement of industrial and commercial equipment and stocks, and of farm equipment and livestock	200,000	13.3
Reconstruction of 120,000 industrial buildings	100,000	6.6
Removal of wreckage, etc. (120 million cubic metres)	36,000	2.4
Temporary housing for refugees and war victims	30,000	2.0
Removal of 100 million mines	10,000	.7
Highways	10,000	.7
Other items	214,000	14.3
Total expenditure	1,500,000	100

As shown in the above table, the estimated total reconstruction expenditure for post-war France amounts to more than 1,500,000 millions of francs. It is also estimated that this programme of reconstruction will require 20,000 million man-hours of employment, equivalent to the labour of 800,000 workers 40 hours weekly for 11 years.<sup>1</sup> About 60 per cent. of the total expenditure will be devoted to the reconstruction of dwellings and only about 20 per cent. to the reconstruction of industry and agriculture.

Estimates of the total requirements of China's Relief and Rehabilitation Programme, submitted to U.N.R.R.A. by the Chinese Government, though in a somewhat different form, give another example of the kind of information needed for effective

<sup>1</sup> Assemblée consultative provisoire, Document No 263: *Rapport fait au nom de la Commission des finances sur la demande d'avis déposée par le Gouvernement provisoire de la République française sur le projet d'ordonnance portant fixation du budget des services civils pour l'exercice 1945: Reconstruction et urbanisme.*

international planning for post-war economic restoration. They are presented as follows:

TABLE VI. TOTAL REQUIREMENTS OF CHINA'S RELIEF AND REHABILITATION PROGRAMME<sup>1</sup>

	Total requirements			Material requests from U.N.R.R.A.	
	Chinese expenditures Ch. \$ <sup>1</sup>	Imported supplies U.S. \$	Imported tonnage (metric tons)	Imported supplies U.S. \$	Imported tonnage (metric tons)
		(in thousands)	(in thousands)		
Food	100,000 <sup>2</sup>	316,840	3,271	153,881	1,254
Clothing	150,000 <sup>2</sup>	979,305	1,098	154,919	145
Shelter	100,000 <sup>2</sup>	25,000	1,050	5,000	50
Health	246,515	66,154 <sup>3</sup>	74	66,154 <sup>4</sup>	74
Transportation	430,964	663,014	3,397	330,102	1,606
Agriculture <sup>5</sup>	206,700	86,350	759	77,476	663
Industries	1,153,500	348,500	564	115,000	189
Flooded areas	139,570	6,500	12	4,500	9
Welfare services	160,817	32,531 <sup>6</sup>	27	32,531 <sup>6</sup>	27
Displaced persons	39,098	5,633	1	5,633	1
Total	2,727,164	2,529,827	10,253	945,196	4,018

<sup>1</sup> At pre-war value.

<sup>2</sup> Internal distribution costs of a part of the total programme to be carried through with the supplies now requested of U.N.R.R.A.

<sup>3</sup> Including U.S. \$850,000 for foreign experts and U.S. \$1,200,000 for foreign fellowships.

<sup>4</sup> Including U.S. \$275,000 for foreign fellowships for Chinese experts, but not including costs for foreign experts.

<sup>5</sup> Requirements for rehabilitation of fisheries and rural industries not yet determined.

Although the data in these two tables are in many respects not strictly comparable, it is clear that the proportion of total reconstruction expenditure to be incurred for foreign supplies will vary greatly between these two countries, and there are reasons to believe that such variations will also be found among other devastated countries. In the case of France, the estimates seem to show that building reconstruction is likely to assume a predominant quantitative importance in its post-war reconstruction. Since building activity depends largely upon local supplies of labour and raw materials, the proportion of total reconstruction expenditure devoted to imports will probably be relatively small compared with other devastated countries where, for instance, reconstruction of industrial installations will represent a greater share in the total reconstruction expenditure.

However, even in countries where the proportion of total reconstruction investment to be spent directly on imports is relatively small, the need for imports may still be very great.

<sup>1</sup> Government of the Republic of China: *Relief and Rehabilitation in China* (Washington, Sept. 1944), p. 8.

The rebuilding of the capital structure in those countries would entail a substantial diversion of labour from the consumption goods industries. Therefore, within certain limits, the foreign trade policy of those countries for the transition period will have to permit a sufficient in-flow of consumption goods from abroad to maintain their standards of living at satisfactory levels even when the need for imports of direct reconstruction supplies is comparatively small.

### *Export Capacities of Supplying Countries*

Comprehensive estimates of the export capacities of the various supplying countries for each and every type of relief and reconstruction goods are clearly beyond the scope of this Report. Here it is only possible to discuss briefly the main factors determining the export capacities of supplying countries during the transition and to give some illustrations of the complicated nature of the problem.

To begin with, it may be useful to indicate broadly the wartime changes in the export trade of two of the leading supplying countries, namely the United States and Canada. Particulars of the exports of these two countries are given below in value terms:

TABLE VII. EXPORTS OF THE UNITED STATES AND CANADA<sup>1</sup>

	U.S.A. (Including re-exports, in millions of U.S. dollars)			Canada Domestic exports excluding gold, in millions of Canadian dollars)
	Lend-Lease <sup>1</sup>	Cash	Total	
1939	—	3,177	3,177	897
1940	—	4,021	4,021	1,186
1941	739	4,408	5,147	1,638
1942	4,890	3,145	8,035	2,364
1943	10,105	2,608	12,713	2,971
1944	11,300	3,000	14,300	3,440

<sup>1</sup> Total Lend-Lease aid in the form of transfer of goods up to middle of 1944 amounted to \$24,819 million, of which \$21,535 million worth of goods were exported. The composition of the total transfer of goods is as follows: munitions, motor vehicles, etc. \$15,162 million; industrial materials and products, \$6,026 million; agricultural products, \$3,631 million.

In terms of physical volume it is estimated that the total exports of the United States in 1944 were approximately three times the average immediate pre-war volume of 1936-1938 and those of Canada about two and a half to three times as large as before the war. In the transition period the exports of these two countries will certainly be less and the goods exported will of course be different.

<sup>1</sup> Figures for U.S.A. from *Survey of Current Business*, Feb. 1945, p. 19; figures for Canada from Bank of Canada: *Statistical Summary*, Feb.-Mar. 1945, p. 31.

Great Britain will have to increase its volume of exports to a level more than 50 per cent. higher than pre-war (mainly because of the loss of foreign investments), in order to pay for necessary imports, but it can hardly afford a net capital export in the transition period. Aside from the U.N.R.R.A. arrangements, a major portion of its exports to the devastated countries will probably have to be paid for either in cash or in current imports. The volume of its exports to those countries during the transition will therefore depend upon the amount of international loans at the disposal of those countries and the value of their exports, out of which they can pay for their imports from the United Kingdom.

The problem is more complicated than it appears from a survey of the wartime export capacities of the supplying countries. A fundamental factor in the determination of the capacities of those countries to provide relief and reconstruction supplies in the immediate future is the degree of correspondence between the structure of production and the structure of demand in those countries during the remaining period of the Japanese war. This will depend, *inter alia*, upon the following factors:

- (a) *Military cut-backs.* Now that Germany is defeated, war production is concentrated on army and navy requirements for the Japanese war, involving a release of some labour and industrial capacity for the production of civilian goods. In addition, more labour will become available as a result of partial demobilisation of the armed forces. In the United States it has been estimated that the reduction in Army requirements would be about 15 to 20 per cent. in the first three months after VE Day and about 40 per cent. before the end of the year following the defeat of Germany.<sup>1</sup> In Canada, the Minister of Munitions and Supply has announced a probable reduction of munitions production by 35 per cent. in the course of the Japanese war<sup>2</sup>, and in the United Kingdom it may be expected that the reduction of war expenditures will be in about the same proportion as in the United States. These figures give some indication of the probable extent of expansion of total civilian production, out of which the provision of supplies for the devastated countries may be made.
- (b) *Time lags.* The time lags involved in the restoration of civilian production are mainly of the following types:

<sup>1</sup> *War Production and VE-Day, Second Report by the Director of War Mobilization and Reconversion to the President, the Senate and the House of Representatives*, Apr. 1945, p. 21.

<sup>2</sup> Mr. Howe in the House of Commons on 10 Apr. 1945.

- (1) transfer of labour from war industries to civilian industries; (2) time required for the physical reconversion of certain industries from war to peacetime production; (3) period of production, *i.e.*, time consumed in transforming raw materials into finished products; and (4) scarcity of certain specific types of labour, material and equipment for the expansion of civilian output.
- (c) *Demands competing with those of devastated countries.* First, with respect to home demand, analysis in the preceding chapters has shown that in most of the supplying countries the war has brought into existence piled-up demands both for durable consumption goods and for investment goods and also unsatisfied current demands for non-durable consumption goods as a result of wartime restriction of civilian consumption of those goods at high levels of income.<sup>1</sup>

Precisely for the same reason, demands for imports from these supplying countries have also been piled up in other countries which have suffered no war devastation and at the same time have accumulated large foreign balances, such as the Latin American countries, the Middle Eastern countries, India, and some of the neutral countries.

To sum up, it may be stated that during the remaining period of the Japanese war the expansion of civilian output will be limited by continued war production; that this limited increase in civilian output, because of the various time lags and frictions, will not be forthcoming until after a certain lapse of time; and that such increased civilian supply as may take place will most likely, in the absence of special arrangements for meeting the needs of the devastated countries, serve first to satisfy the piled-up and current demands in the home markets and in the non-devastated countries. Thus it would seem that without effective co-ordinated national and international action the provision of relief and reconstruction supplies for the devastated countries in the immediate future will be inadequate.

The degree of difficulty in meeting promptly the import requirements of devastated countries will vary greatly with different types of supplies, such as consumers' goods, which are necessary to provide workers with a minimum standard of living, and raw materials and productive equipment, which are of particular importance in ensuring a high level of employment.

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<sup>1</sup> This would not be the case if unemployment were so serious in the supplying countries as to cause people with purchasing power to withhold their purchases, with the result that the supply of goods exceeded the demand.

The probable supply position of the main items of consumers' goods may be ranged in the order of scarcity as follows: clothing, food, and medical and health supplies. The relief needs for medical and health supplies can probably be most easily satisfied, with a few exceptions such as quinine and some kinds of sanitation equipment. In the case of food, wheat and rye are in ample supply but there may be difficulties in making prompt and sufficient relief deliveries in respect of supplies of animal protein, edible fats and evaporated milk. Clothing relief in the form of new finished garments and fabrics presents a most serious supply problem. In leading supplying countries like the United Kingdom, the United States and Canada, shortages in textile products, in varying degrees of acuteness, have developed during the war, and for some branches of the textile industry, such as the cotton manufacturing industry, the end of the war in Europe has not brought about any substantial expansion in civilian output because of the increasing military requirements of the Japanese war.<sup>1</sup>

With regard to raw materials, hard hemp and rubber may continue to be in short supply until the end of the Japanese war. Timber, wood-pulp, and leather may also remain scarce. On the other hand, there are a number of raw materials which are at present in plentiful supply and therefore with enough shipping space available sufficient quantities of them can be delivered to the devastated countries within a short period of time. Textile fibres may be cited as a good example. Both in the case of wool and cotton the accumulated world stocks have reached unprecedented levels, and large proportions of these stocks are owned by the United Kingdom and the United States. The estimated total world carry-over of cotton by the end of the 1943-44 season amounted to 25.8 million bales—nearly equal to one year's world production—and that of wool was expected to be above 4,000 million pounds, which would be greater than the current annual world production. The deficiency in relief supplies in the form of new finished garments and textile fabrics can, therefore, be partly made up by prompt shipment of raw fibres to devastated countries. This has been especially urgent for countries like France and Belgium, where the severe decline in textile output was due more to the lack of raw materials than to military destruction of productive capacity. Other instances of abundant supply include many types of minerals and non-ferrous metals such as aluminium and magnesium. It is, however, questionable whether such raw materials are

<sup>1</sup> U.N.R.R.A.: *Report of the Director-General to the 2nd Session of the Council* (Washington, D.C., 1944), pp. 30-36.

precisely the ones most urgently needed by the devastated countries in the initial stage of reconstruction.<sup>1</sup>

The case of productive equipment deserves special consideration. The import needs of devastated countries for capital equipment are urgent (although less than those for essential consumers' goods) in order to replace war damage and to put people into jobs producing the goods required. The capacities of supplying countries to export capital equipment during the period of partial reconversion will be limited by the general factors previously mentioned. On the other hand, the time lag involved in physical reconversion may be longer in the equipment-producing industries than in other industries. Moreover, resources which could be directed towards increased production of capital equipment as a result of military cutbacks can also be put to a great variety of alternative uses. For the present purpose all these alternative uses may be classified under the category of "durable consumers' goods" such as passenger cars, washing machines, refrigerators, vacuum cleaners, baby-carriages and so on. Most of these "high-income consumers' goods" are eagerly awaited by the consuming public in the supplying countries but they have the lowest rating among the import requirements of devastated countries, at least in the initial stage of reconstruction. Since cutbacks will release resources only in limited quantities, there will be a choice between producing more durable consumers' goods or more productive equipment, including transport and mining equipment, agricultural implements, repair units, machine-shop equipment, electric-generating equipment, textile machinery, sawmill equipment, building equipment and so on—supplies essential for the reconstruction of devastated countries. Since those types of productive equipment would seem to have a higher social priority than durable consumers' goods, it would appear desirable that the Governments of the supplying countries, in allocating resources released by military cutbacks, should direct as large a portion as possible towards the former category of goods, at least in the early period of partial industrial reconversion.

A further consideration should also be taken into account. Increased production of productive equipment by itself does not ensure that an adequate portion of it will be delivered to the devastated countries, because competition for such supplies will be extremely keen owing to: (1) the piled-up replacement demand in the supplying countries, (2) the piled-up replacement demand in non-devastated countries, and (3) the developmental demand in under-developed areas of the world. Thus, in addition to the

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<sup>1</sup> Cf. LEAGUE OF NATIONS: *World Economic Survey, 1942-44* (Geneva, 1945).

proper allocation of released resources between durable consumers' goods and productive equipment, it would seem desirable that, as in the case of other scarce commodities, the productive equipment thus turned out should be allocated among various competing demands on the basis of relative urgency of needs.

One important source of reconstruction supplies which has not been mentioned so far is military surpluses. Although no quantitative estimates are available concerning the military surpluses accumulated by the allied nations, it seems likely that a considerable portion of such surpluses can be utilised for relief and reconstruction purposes. Lorries and army clothing may be cited as examples.

Obviously, a basic factor limiting the exports of the supplying countries is shipping space. The question of how much shipping space will be available for the delivery of relief and reconstruction supplies to Europe is, of course, difficult to ascertain in advance, as it will depend primarily upon the changing military requirements of the Japanese war.<sup>1</sup>

It follows from what has been said that it is necessary to make international arrangements which will ensure a proper distribution of the scarce goods between supplying countries and importing countries with needs of varying urgency. Some machinery for this purpose already exists. The United Nations Relief and Rehabilitation Administration is designed to assure the fulfilment of the minimum import needs of the war-devastated countries, but as the scope of its activities is limited to relief and rehabilitation operations during the emergency period of the transition, it does not deal with the long-range economic reconstruction of the devastated countries.

The combined boards organised during the war for the purpose of pooling and allocating resources, particularly those of food, raw materials and shipping, among some of the Allied nations, afford a successful example of the kind of international machinery required for the allocation of scarce supplies among countries. It must, however, be recognised that any scheme of international allocation in the transition period, if it is to be workable, will have to provide for more compromise among various claimant countries than would be necessary in time of war.

<sup>1</sup> "The world's merchant fleet in June 1939 came to 59 million tons, counting vessels of 1,000 gross tons and over. By the end of 1943 sinkings totalled more than half that figure but had been equalled by new building. It appears that by the end of 1944 there was an increase in ships afloat of at least 9 million tons and perhaps over 13 million. In other words, some 15-22 per cent. more merchant shipping was probably available at the end of 1944 than before the war." (William DIEBOLD, Jr.: "Shipping in the Immediate Post-War Years", in *Journal of Political Economy*, Vol. LIII, No. 1, Mar. 1945, p. 22.)

### METHODS OF FINANCING INTERNATIONAL TRADE

In addition to the problem of international allocation of scarce supplies, which must be solved if workers are to find employment in the jobs for which they are fitted, there is the problem of financing international trade during the transition period. From the point of view of the countries in need of rehabilitation and reconstruction supplies this problem is one of obtaining sufficient foreign exchange to pay for these necessary imports or of receiving the imports under special international arrangements. Two possible sources of foreign exchange must be considered: (a) the resources which these countries themselves possess; and (b) assistance from abroad. The resources at the disposal of the countries which have been partly devastated by the war are of two kinds, namely, financial resources in the form of international liquid reserves and other types of realisable foreign assets, and human and material resources that can be used to expand their exports. Foreign assistance may take the form of either private or public credits and loans. The special international arrangements which are at present in operation are Lend-Lease, Mutual Aid and contributions from U.N.R.R.A.<sup>1</sup> While these various methods may be expected to supplement one another, it appears likely that for financing the imports of such countries for the transition period as a whole, main reliance must be placed upon the provision of foreign credits.

First, in regard to the existing financial resources of the devastated countries, while information is lacking concerning the volume of long-term foreign assets in their possession, some estimates are available of the international liquid reserves at the disposal of such countries. The amounts of international liquid reserves available differ widely among the various devastated countries. In Czechoslovakia, Poland, Austria, Italy and many other European countries such reserves are very limited in amount and cannot be counted upon to finance more than a small part, if any, of their import requirements. France, Belgium and the Netherlands, however, still have at their disposal substantial liquid reserves in the form of gold and short-term foreign assets. Thus it would seem that by drawing upon their accumulated liquid reserves these countries could finance at least a part of their import requirements out of their own resources, and hence their need for foreign credits may be regarded as less urgent than those of other countries. This view, however, needs to be qualified. The

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<sup>1</sup> Though different in character, reparations in the form of goods and services should also be mentioned in this connection.

liquid reserves of these countries cannot be applied in full for the purchase of such imports; a certain portion of them must be retained for the purpose of meeting unexpected contingencies. Moreover, the import surpluses which these countries need will probably far exceed the amount of mobilisable liquid assets at their disposal, and consequently these countries will still have to rely upon other methods to obtain a considerable proportion of the imports they require.

Secondly, the extent to which the imports of the devastated countries during the transition can be paid for out of the proceeds of their own exports obviously depends upon how rapidly their exports can be expanded, and this will again depend upon a number of factors. The first is the speed with which the physical capacities of the export industries in those countries are restored. Then there is the question of the competitive position of these export industries as determined by domestic levels of prices and costs and by the rates of exchange in force between their currencies and those of the countries to which they desire to export. For the present the official exchange rates of the liberated countries have been fixed at levels which, in many cases, appear to be high in relation to the internal purchasing power of their currencies.<sup>1</sup> Some adjustments may therefore prove necessary. Apart from these factors, it appears clear that the extent to which the exports of the devastated countries can be expanded during the transition period will be determined in considerable measure by the levels of national income and the commercial policies of other countries. To enable the devastated countries as well as all other countries to increase exports, it is necessary that effective national and international action should be taken to maintain high levels of income and economic activity in all countries and particularly in the great industrial countries such as the United States and the United Kingdom, which constitute the world's greatest import markets. It is also important to reduce trade barriers and to revive the international flow of

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<sup>1</sup> The foreign exchange value of certain continental currencies (in U.S. cents per unit) in late 1944, as compared with 1939, were as follows:

	Summer 1939 <sup>1</sup>	Fall 1944 <sup>2</sup>	Index (Summer 1939 = 100)
France (franc)	—	—	—
Belgium (franc)	2.65	2.00	75
Netherlands (guilder)	3.40	2.26	65
Greece (drachma)	53.23	37.75	71
Italy (lira)	.857	.673 <sup>3</sup>	79 <sup>4</sup>
	5.26	1.00	19

<sup>1</sup> Average June-July 1939.

<sup>2</sup> All except the French franc are rates made available for Allied forces.

<sup>3</sup> New drachma (November 1944). The rate has since May 1945 been raised to 500 to \$1 (0.2 cents per drachma).

Source: *Monthly Letter of the National City Bank of New York*, Jan. 1945, p. 9.

capital. In the absence of effective action along these lines to promote a steady expansion in total world trade on a multilateral basis, there is likely to be a strong tendency for the devastated countries, and indeed for certain other countries as well, to develop bilateral trading arrangements with other countries, or limited multilateral trading arrangements with a group of countries, for the purpose of securing some assured markets for the exports which they must have in order to obtain the foreign exchange required to finance essential imports. During the early stages of reconstruction the exports of the devastated countries will undoubtedly be far too small to cover their vast import requirements.

Thirdly, it seems likely that the special forms of foreign assistance rendered to the devastated countries such as Lend-Lease, Mutual Aid and the contributions from U.N.R.R.A., will cover only a small part of expected needs. Moreover, most of the assistance granted in these forms appears likely to be available only during the initial period of relief and rehabilitation.

The above brief discussion of the different possible ways of financing the imports of the devastated countries thus leads to the conclusion that the major portion of their import requirements for the reconstruction period as a whole will have to be financed primarily by the provision of foreign credits. The larger the volume of foreign credits that can be made available to them, the less will be the depletion of their own essential liquid reserves and the less will be their need to resort to such devices as bilateral trading arrangements. Moreover, capital imports into the devastated countries, as into certain other countries, are likely to prove essential to the revival of multilateral trade; the spending by such countries of the proceeds of loans from one country (for instance, the United States) on imports from another country (for instance, the United Kingdom) will enable this latter country to increase its imports from the lending country.

There is still one point to consider in this general discussion, namely, that in the period of rehabilitation and reconstruction it will no doubt be necessary to maintain exchange restrictions in all capital-scarcity countries, in order to control capital exports which, if uncontrolled, might impede the solution of the problems of foreign trade, and in particular might offset the benefits derived from foreign credits.

#### *Special Arrangements*

European relief after the last war was financed in three major ways: (1) by cash payments made by the countries receiving relief; (2) by credits extended by the countries furnishing relief;

(3) by gifts. Cash payments comprised 25 per cent. of the total relief, gifts 7 per cent. and credits 68 per cent. The bulk of relief loans (about 70 per cent.) was made by the United States. The story of these loans is one of almost complete default, and this may serve as a warning in connection with current relief planning. It seems clear that

had it been possible, it would have been to the advantage of all concerned if a greater part of the relief had been given outright . . . In circumstances such as obtained in Europe at the end of the last war, it may well be sound financial and economic policy for Governments in a position to do so to make contributions (*à fonds perdu*) in order to expedite the revival of economic activity in the stricken areas. Nothing is gained by dressing such relief in deceptive financial attire. Indeed, the effect of the relief loans granted in 1919 was, in at least one case, seriously to impede the vital work of reconstruction and thus to offset the very economic advantages that might have been gained from the relief afforded. . . . When there is reason to believe that the total reconstruction needs are so great that, if disaster is to be avoided, the country in question must obtain some direct assistance in the form of what ultimately becomes a gift, then it is probably wise to make the gift and make it at once.<sup>1</sup>

At the present moment, the special arrangements made to send supplies to the devastated countries without direct payment being made for them are Lend-Lease, Mutual Aid, and U.N.R.R.A.

From the start of the Lend-Lease programme in March 1941 through March 1945, the United States supplied to its Allies goods and services valued at \$38,971,797,000.<sup>2</sup> The function of Lend-Lease has been clearly stated:

Since the beginning of the programme, Lend-Lease aid has been used, and will continue to be used, for one purpose and one purpose only—to enable the United States and its Allies to bring their combined resources to bear against the common enemy and speed the day of final victory.<sup>3</sup>

In 1944 the Lend-Lease Act was amended to prevent post-war commitments concerning economic policy, military policy, or any policy involving international relations. Later the Congress approved a prohibition against using Lend-Lease for post-war relief, rehabilitation or reconstruction.

Like American Lend-Lease, Mutual Aid, which is a British Commonwealth programme, is a part of the system under which large amounts of goods and services are placed in a common pool, so that they may flow freely where they are most required for the common war effort of the United Nations. The countries which

<sup>1</sup> LEAGUE OF NATIONS: *Relief Deliveries and Relief Loans, 1919-1923* (Geneva, 1943), pp. 42-43.

<sup>2</sup> *Nineteenth Report to Congress on Lend-Lease Operations*, p. 8. By 1 Jan. 1945 the United States had received \$4,656,315,000 worth of reverse Lend-Lease supplies and services from its Allies (*ibid.*, p. 30).

<sup>3</sup> *Ibid.*, pp. 8-9.

have been most active in Mutual-Aid operations are Canada, Great Britain, Australia, New Zealand and India. Of these five countries, only Canada has incurred substantial Mutual-Aid expenditures on behalf of nations other than the United States and has received no direct Lend-Lease aid from the United States.<sup>1</sup> Canadian expenditures on Mutual Aid amounted in 1943 and 1944 to about 44 per cent. of total Canadian exports.<sup>2</sup>

U.N.R.R.A. was established on 9 November 1943 by an Agreement among 44 countries to plan, co-ordinate and administer or arrange for the administration of measures for the relief of victims of war in any area under the control of any of the United Nations, through the provision of food, fuel, clothing, shelter and other basic necessities, medical and other essential services.

The resources of U.N.R.R.A. are approximately 2,000 million dollars. Each Member nation whose territory has not been invaded contributes an amount equal to one per cent. of its national income for the year ending 30 June 1943, and all Member nations contribute to the administrative expenses. The figure of 2,000 million dollars may be compared with the 2,800 million dollars loaned for relief in Europe after the last war, when most of the Continent was spared from the direct ravages of war, with only a few large patches of devastation, and the Far East was untouched by the conflict. It may also be noted that the total consumption needs of Europe, excluding the Soviet Union, during the eighteen months' period following the termination of hostilities in Europe have been estimated by U.N.R.R.A. at 93,000 million dollars. The resources of U.N.R.R.A. are relatively small, and may well prove inadequate for the task it has to fulfil.

U.N.R.R.A. has assumed responsibility for relief activities in Greece and Yugoslavia and has sent supplies to Poland and Czechoslovakia. In addition, assistance has been asked for by China, Ethiopia and Albania. In Italy it has operated a relief programme at a cost of 50 million dollars to provide food for children and nursing and expectant mothers, medical care and the care of displaced persons. By 30 June 1945, U.N.R.R.A. expected to have loaded for shipment to Europe about 1,250,000 tons of supplies at a total cost of about \$250 million.<sup>3</sup>

<sup>1</sup> In accordance with the Hyde Park Declaration of April 1941 war materials sent to Canada for ultimate delivery to Great Britain as war supplies could be financed under the terms of the Lend-Lease Agreement.

<sup>2</sup> Compiled from figures in the *Statistical Summary of the Bank of Canada*, Feb. and Mar. 1945, p. 31.

<sup>3</sup> Address by Hon. Herbert H. Lehman, Director-General of U.N.R.R.A., New York, 20 May 1945. *U.N.R.R.A.—Organisation, Aims, Progress* (1944), p. 7; *U.N.R.R.A. Monthly Review*, Dec. 1944; and *U.N.R.R.A. Press Release*, 19 May 1945, p. 2; *Survey Mid-Monthly*, Apr. 1945; *New York Times*, 28 May 1945.

*Short-and Medium-Term Credits*

Some part of the credit requirements of the devastated countries in the transition will be covered by the re-establishment of normal commercial credits. In normal times these credits were granted chiefly by the commercial banking institutions in such international financial centres as London and New York. By accepting and discounting commercial bills these banking institutions are usually able to supply the large volume of short-term credit needed by importers in other countries as well as in their own. This delicate mechanism of international finance has been disrupted by the war. The first step towards assuring sufficient short-term credits to the devastated countries is, therefore, to re-establish the ordinary banking connections between those countries and the world's financial centres wherever such connections have been broken during the war and to restore the normal operation of the short-term money market. At the same time steps should be taken to remove any obstacles which may exist to the direct extension of credits to importers in the devastated countries by exporting firms in the supplying countries.

Because of the magnitude of the international credits which will be needed in the early transition period, however, it seems clear that the normal mechanism of private credit creation will be unable by itself to meet all the demands emanating from the devastated countries. There will consequently be a need for special governmental or intergovernmental financial arrangements to provide additional supplies of foreign exchange for such countries. This need can be met in part by the provisions for export credit guarantees in the United Kingdom and Canada; and the further development of such export credits by other countries in a position to extend them would be of great value. There is likely however to be a need for bilateral and other intergovernmental arrangements as well.

Certain bilateral arrangements affording credit facilities have already been concluded. For example, under the Anglo-Belgian Monetary Agreement concluded on 5 October 1944, the Bank of England and the National Bank of Belgium respectively furnish the sterling and francs required for financing payments between the sterling and franc areas, subject to the proviso that if in the course of providing such currency either party acquires more than £5 million, or its equivalent, of the other party's currency, the excess is to be paid in gold at the free disposal of the creditor. The agreement is for a period of three years, but is terminable on three months' notice by either party. In effect

each country grants the other an "over-draft" facility amounting to £5 million. Another bilateral agreement having a broadly similar effect is the Anglo-French Financial Arrangement of 27 March 1945. Under this agreement, Great Britain opened a credit of £100 million to France and France one of frs. 200,000 million (the equivalent of £100 million at the official rate of exchange) to Great Britain. These credit facilities are made available for one year, and special arrangements are made for the settlement of any balance outstanding at the end of that period. Bilateral arrangements of this character may be of great assistance to the devastated countries in covering temporary deficits in their balances of payments in the initial period of reconstruction.

In addition to the foreign exchange provided by these various types of short-and medium-term credits limited supplementary resources will become available through the proposed International Monetary Fund if this institution is successfully established.

### *Long-Term Loans*

It is not to be expected, however, that the requirements of the devastated countries for supplies which are not met by U.N.R.R.A. or other special arrangements and cannot be financed through the short-term money market can be met in full by bilateral inter-governmental arrangements providing for short- or medium-term credits. Certain of the countries which have very small reserves of gold and foreign exchange and will be in urgent need of such credits may receive little or no assistance in this form; and others may receive much less than the full amount of their requirements. Moreover, although the proposed International Monetary Fund may improve the position of the countries concerned by making limited supplies of foreign exchange available for normal trading purposes, its operations are subject to the specific limitation that it is "not intended to provide facilities for relief and reconstruction or to deal with international indebtedness arising out of the war".<sup>1</sup> Some part of the requirements of these countries for relief and rehabilitation supplies, as well as for capital imports for long-term reconstruction will therefore have to be met by long-term loans.

Since loans raised abroad for specific projects usually provide more foreign exchange than is needed for the purchase of materials and equipment required directly for the projects themselves, a part of their proceeds can be used to purchase relief and rehabilitation supplies. It may well be necessary, however, in certain cases

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<sup>1</sup> Articles of Agreement of the International Monetary Fund, XIV, Section 1.

to arrange for international loans to cover the import requirements arising out of general programmes of economic reconstruction, as distinct from specific projects.

The devastated countries will not, of course, be the only ones which will require long-term international loans during the transition and reconstruction periods. As the International Labour Conference noted last year<sup>1</sup>, "imports of capital will be needed for developmental purposes and the raising of living standards in many countries".

Long-term international loans may take the form of private loans raised in the principal financial centres, or of loans by individual Governments, or of loans made by or through the proposed International Bank for Reconstruction and Development.

The conditions that will prevail during the transition period will not be favourable to private long-term loans. In the first place, many of the most pressing projects will be of a kind that will yield no immediate profit, such as, for example, restoration of transportation facilities, public utilities, low-rental housing and public buildings. Secondly, the devastated countries cannot be saddled with the unfavourable terms as to interest rates and amortisation periods that private lenders might require for reconstruction loans. The experience with default, repudiation and expropriation in the inter-war period is likely to make private investors wary of international loans except on terms extremely favourable to them. The growing strength of labour organisations in borrowing countries will make more difficult the type of exploitation of labour that has characterised some direct foreign investment in the past, and will thus reduce the profit on such investment. Moreover, labour legislation, land laws, tax legislation, social security provisions, and Government regulation of industry may all tend to reduce the private investor's incentive in foreign countries. In view of the likelihood of exchange control being maintained, at any rate for a considerable time, special agreements will have to be concluded to provide for the payment of interest and the ultimate repayment of the capital. Finally, the export capacity of devastated countries will be inadequate to service foreign debt during the period of reconstruction and rehabilitation.

It thus seems unlikely that unregulated and unassisted private investment can or should be relied upon to finance any sizable share of foreign trade during the transition period. For meeting the peculiar problems involved in financing the sort of foreign trade that will contribute most to reconstruction and rehabilitation, inter-

<sup>1</sup> Resolution concerning economic policies for the attainment of social objectives (I.L.O.: *Official Bulletin*, Vol. XXVI, No. 1, 1 June 1944, p. 94).

national Government lending has many advantages.<sup>1</sup> Loans made or guaranteed by Governments can carry lower rates of interest and run for longer periods of time than private concerns are likely to find attractive. The countries most in need of loans will be precisely those that are in no position to pay high rates of interest, and in some cases it may be many years before they will be in a position to make net payments abroad.

As in the case of domestic investment, some of the projects for which foreign finance is needed are of a size and type that do not fit easily into the operations of private firms. The rebuilding of cities, the restoration of farm and forest areas, the development of the Danube or Yangtze valleys, will require sums not easily provided even by the biggest of investment trusts, and will involve more financial risk than most banks care to face. Such projects require Government participation or support.

When lending is undertaken or directed by Government authorities, it can be more easily integrated with commercial policy. One of the reasons for the failure of international lending in the inter-war period was that the major creditor countries did not ensure the import surpluses that constitute the only ultimate means of repayment. If Governments make or guarantee foreign loans, they should adopt commercial policies that will make repayment possible.<sup>2</sup>

A Government lending authority, at the same time that it integrates its plans with those of the authorities concerned with commercial policy, can integrate its plans with those of the authorities concerned with domestic employment. Making and repaying loans usually involves structural changes in the economic organisation of both lending and borrowing nations. Accepting a loan means for the borrower that certain goods and services, which could be produced at home only at considerable cost, can be imported. This fact makes it possible to divert resources to other purposes and consequently some industries contract and require less labour while others expand and require more labour. Making a loan usually means for the lender an expansion of certain export trades, and consequently (if full employment exists) contraction of other industries. Making and accepting payments of interest and principal involve shifts in the reverse direction. As Professor

<sup>1</sup> For convenience, the term "international Government lending" is used to denote loans made or underwritten by one or more Governments to other Governments or to borrowers guaranteed by other Governments.

<sup>2</sup> Cf. U.S. Dept. of Commerce: *The United States in the World Economy* (Washington, 1943), especially pp. 21-22; and National Planning Association: *America's New Opportunities in World Trade* (Planning Pamphlet, Nos. 37-38, Washington, 1944).

Staley has pointed out, "Under the conditions of modern economic life the problem of changing the production structure cannot be met successfully simply by leaving it to time and to the working of so-called automatic market forces. Methods of deliberately encouraging mobility and promoting the process of adaptation will be essential."<sup>1</sup> Perhaps even more important, the total effective demand for labour must be raised (or supply reduced) to compensate for the increase in imports that accompanies repayment of a loan. Proper timing of the fiscal, monetary, and other measures required to prevent unemployment from arising out of the shifts in demand for labour involved in international lending will be much simpler if the lending itself is subject to Government control.

The danger of expropriation, repudiation and default can be reduced by Government participation in international finance. At the same time, participation of Governments can prevent the low wage standards and the ruthless exhaustion of soil, forests and mines, that have sometimes accompanied direct foreign investment in the past.<sup>2</sup>

Against the advantages, thus enumerated, of international lending by Governments or special governmental agencies there is to be set the possibility that a lending country may seek to influence the internal or trade policies of the borrower in ways which the latter, and perhaps other countries as well, would regard as open to serious objection. Fears of such influence could be greatly reduced if loans were made or sponsored, not by individual Governments, but by an international institution in which both borrowing and lending countries were represented. Further, the loans of an international agency, unlike those of individual Governments, would not be "tied" to any one country for expenditure.<sup>3</sup> Such an institution would also be better placed than any single Government to analyse and take into account the possible repercussions of any proposed loan on conditions in other countries. It

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<sup>1</sup> Eugene STALEY: *World Economic Development*, Studies and Reports, Series B, No. 36 (I.L.O., Montreal, 1944), p. 185.

<sup>2</sup> Cf. Eugene STALEY, *op. cit.*, p. 88.

<sup>3</sup> Cf. Eugene STALEY, *op. cit.*, p. 85, where he says:

"A country which has surplus savings available for investment abroad is not necessarily the best source of the particular capital goods needed for a project where its savings might be used. Nor will countries capable of providing excellent equipment necessarily be able to finance the development projects for which this equipment is needed. . . . To make the best use of world resources it should be possible to arrange for the construction of a railroad in China, by using, for example, British rails, American locomotives, and German signal equipment, with the financing coming from savings collected in varying proportions in many different countries. If French capital is available only to finance purchases of French equipment, American capital only to finance purchases in America, etc., as is likely to be the tendency if bi-national arrangements are the rule, wasteful restrictions are forced upon the world economy analogous to those imposed by bilateralism in trade."

would thus be better able to plan its operations in the interest of such objectives as the planned and complementary development of different regions of the world, and the mitigation of cyclical fluctuations in the general level of economic activity. It would also be able to combine savings from many sources into an international pool of development funds; to spread the risks of developmental undertakings by offering or underwriting securities based on many different projects; and to enhance the chances of success of each particular undertaking by placing at its disposal the best technical advice and assistance to be found in any country.

It was for reasons such as those mentioned above that in May 1944 the International Labour Conference recommended that "the existing machinery of the international capital market should be supplemented by the establishment of appropriate international machinery for the purpose of promoting the international movement of capital"<sup>1</sup>, and that in July 1944, the United Nations Monetary and Financial Conference at Bretton Woods drafted Articles of Agreement providing for the establishment of an International Bank for Reconstruction and Development.<sup>2</sup> The purposes of the Bank are among other things to assist in reconstruction and development by facilitating the investment of capital for productive purposes; to promote private foreign investment by guaranteeing or participating in loans made by private investors, and, when private capital is not available on reasonable terms, to provide out of its own resources finance for productive purposes; and to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment, thereby assisting in raising productivity, the standard of living and conditions of labour in the territories of members. The Bank has an authorised capital of \$9,100 million, of which 20 per cent. is to be paid up or subject to call and 80 per cent. is callable only to meet interest and amortisation in default by borrowers or to redeem defaulted securities. The amount of its own funds out of which the Bank can make direct loans is therefore not large in comparison with the probable demands for capital, but the Bank will be able to make larger sums available by lending out of amounts that it will itself borrow and by guaranteeing loans raised for member countries. The total amount outstanding of guarantees, participations in loans and direct loans made by the

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<sup>1</sup> Resolution concerning economic policies for the attainment of social objectives (I.L.O.: *Official Bulletin*, Vol. XXVI, No. 1, 1 June 1944, pp. 94-95).

<sup>2</sup> Some particulars of the proposed Bank are given in the *Director's Report* to the 27th Session of the Conference.

Bank is limited to the amount of its unimpaired subscribed capital plus reserves and surplus.

In view of the great needs of capital-scarcity countries for capital for reconstruction and development purposes, it would seem to be desirable that the Bank should guarantee or participate in loans on a generous scale in the early years and that if necessary its capital stock should be increased in the manner provided for in the Articles of Agreement.

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## CHAPTER IX

### **WARTIME CHANGES IN THE STRUCTURE OF INDUSTRY**

Modern warfare requires the complete mobilisation of the economic resources of the belligerent countries; it also profoundly affects the economies of neutral States. The impact of the Second World War on the world economy has far exceeded that of any previous war. The demands of the war economy, together with the disruption of international trade, have brought about structural changes in the economies of most of the countries in the world. It is not possible at present either to measure the exact scope of these structural changes or to foresee which of them will be permanent.

One thing, however, seems certain. The end of the war will not restore these national economies to their previous status; maladjustments of varying scope and kind will remain and the way in which they will be overcome will have serious repercussions on the level and distribution of employment.

#### **SURVEY OF STRUCTURAL CHANGES**

Although the changes in production have been similar in general trend, they show important differences from country to country.

On the *continent of Europe*, the conversion of industry was carried out to the greatest possible extent in all countries involved in war. Especially after the beginning of the war between Germany and the Soviet Union, production of war material was expanded at the expense of civilian goods production. Armament plants, chemical factories, and plants for the production of synthetics were enlarged everywhere. New industries were established, often for reasons of strategy, in central and eastern Europe (Austria, Poland, Rumania, Czechoslovakia, and Hungary). In the last-named country, for example, industrial production increased from 1938 to 1942 by two thirds. At the same time, industries for peacetime goods — among them the light export industries — were neglected, and in many cases the plants were even dismantled.

Under German domination, the manufacture of a single product was frequently divided among several plants in different countries; some of the important parts were made in Germany and the finished

products were assembled there. The lack of minerals induced the Germans to mine low-grade ores, including iron, copper, and tin. Production of light metals was substantially increased. The production of synthetics—oil, rubber, textile fibres, and plastics—reached a very high level.<sup>1</sup> Industrial research was mainly devoted to war products and to the invention and use of substitutes and new materials. Exchange of technical information with the rest of the world was interrupted.

In the neutral European countries war conditions stimulated industrialisation. In *Sweden*, the extensive rearmament programme required an expansion in the iron and steel industry and in base metal and light metal production. Production of chemicals and the textile fibre industries was enlarged; great improvements were made in the industrial utilisation of wood; and the generation of hydro-electric power was probably almost 150 per cent. of the 1939 output at the end of 1944.<sup>2</sup> There has been a steady expansion of hydro-electric power stations in *Switzerland*. Substantial progress was also achieved in the production of other synthetics like tanning material, substitute for quebracho. It is to be noted that the acreage under cultivation in Switzerland has been doubled during the war and exceeds the total acreage achieved at the end of the last war by 70 per cent.

The mechanisation of agriculture was one of the German objectives in the occupied countries of eastern Europe. For example, it has been reported that in *Rumania* the number of tractors rose from 3,300 in 1940 to 8,250 in 1943. To meet the demands of this programme, production of agricultural machinery had to be expanded in several countries.

In *Great Britain*, war production had absolute priority over civilian production. A huge expansion in munitions became necessary and it is estimated that the monthly output of munitions in the first half of 1944 was about six times as great as at the outbreak of the war. This increase relates to the over-all rate of production of naval and merchant vessels, aircraft, ground munitions, and warlike stores.<sup>3</sup> Domestic output of iron ore was increased by more than one half, the output of pig iron was maintained at a high level, and the total steel production was consistently above the pre-war level. Production of light metals increased greatly, that of magnesium more than eleven times the pre-war rate.

<sup>1</sup> It was estimated, for instance, that the production of synthetic oil in Germany increased from 2-3 million tons in 1939 to 4-5 million tons in 1943; the actual production, however, greatly surpassed these estimates.

<sup>2</sup> *The Economist*, London, 1 Jan. 1944, p. 16.

<sup>3</sup> *Statistics relating to the War Effort of the United Kingdom*, Cmd. 6564 (London, H. M. Stationery Office, Nov. 1944), p. 10.

Production of aluminium reached 56,000 tons in 1943 against 25,000 tons in 1939. On the other hand, the cotton yarn output was only about 60 per cent. and the output of newsprint 15 per cent. of the respective pre-war totals. Land under cultivation went up from 12.9 million acres in 1939 to 19.4 million acres in 1944, and it has been estimated that the net output of food for human consumption increased at least 70 per cent. in terms both of calories and of protein. But the restriction of peacetime industrial production resulted in a substantially reduced consumption of civilian goods at home and in a great decline of British exports, which in 1943 and 1944 dropped to as little as 30 per cent. of the pre-war volume.

The war forced the *Soviet Union* to move some industries from regions occupied by the Germans to other parts of the country. Industries were quickly organised in the Urals, in Siberia, and Central Asia; mining, heavy industries and armament production were increased. Thus, despite great destruction in what had previously been the main industrial areas of the Soviet Union<sup>1</sup>, the total 1944 output of heavy engineering industries is reported to have exceeded the pre-war volume.

The greatest absolute expansion occurred in the *United States*, the only big Power that was able to reach a record level in war production and, at the same time, to maintain a good supply of civilian goods. The total productive capacity of the United States is reported to have increased by almost 50 per cent. during the war, and may now amount to nearly one half of the total capacity of the world.<sup>2</sup> The increase in light metals, machine tools, aircraft, shipbuilding, industrial chemicals, and in the capital goods industries in general, has been enormous. Enough synthetic rubber is made to meet the total peacetime demand for rubber. Manufacturing of all kinds of plastics has made large strides. Production of various minerals was expanded, while production of food increased by about one third.

The development in the *Latin American* countries can be characterised as concentrating particularly on production of strategic materials needed for war production (replacing to some extent materials previously supplied primarily by the Far East) and an increase of industrial production. Mining generally was increased.

<sup>1</sup> In the areas which were liberated from the German occupation, the output of coal and iron and steel in 1944 was estimated to be only about 10 per cent. of the total production before the invasion. Cf. *Economist*, 7 Apr. 1945 ("Commercial History and Review of 1944"), p. 8.

<sup>2</sup> NATIONAL PLANNING ASSOCIATION: *America's New Opportunities in World Trade* (Washington, 1944), p. 49.

For example, the production of tungsten in Latin America rose from 10 to 20 per cent. of the world output, antimony from 50 to 75 per cent., and mercury from 5 to 10 per cent. An increase of production also occurred in copper, tin, lead, manganese, and other minerals.

At the same time, as a result of the scarcity of goods following the great reduction of imports from Europe as well as from the United States, industrialisation was accelerated. In particular, throughout *Latin America* there was an expansion of manufacturing industries, ranging from steel and iron to glass, leather, and plastics. Between 1939 and 1943 *Brazil's* industrial employment increased by more than 50 per cent. and during the same period the index of industrial production in *Argentina* went up by 19 per cent., in *Chile* by 13 per cent., and in *Mexico* by 15 per cent. As a rule, the increase was higher in the light than in the heavy industries. In the manufacture of textiles, leather, glass, agricultural machinery, electric light bulbs, chemicals, and pharmaceuticals great progress was recorded. Efforts are being made to improve the fuel situation and to build better transport facilities.<sup>1</sup>

In all parts of the *British Commonwealth* production was mobilised to help the common war effort. In contrast to experience in World War I, *Canada's* war effort involved much greater expansion in industry than in agriculture. Between 1939 and 1943, when the peak was reached, industrial production went up 160 per cent. and agricultural production went up about 50 per cent. By the end of the fourth year of war, Canada had the two largest blast furnaces in the British Commonwealth. Steel output had more than doubled since the war began; output of tool and alloy steel was five times the pre-war level, and was meeting almost all domestic requirements. Aluminium production had increased six-fold. A magnesium plant was producing enough for Canada's own needs and a surplus for export. Shipbuilding had undergone vast expansion; when war began, Canada had not built a seagoing vessel for 10 years, yet in 1943 Canada rivalled Great Britain in shipbuilding.<sup>2</sup> The Canadian automotive industry was making more

<sup>1</sup> U. S. DEPARTMENT OF COMMERCE (Inquiry Reference Service): *Bolivia's Trade Problems, 1944*; *Industrial Development in Chile, 1944*; *Industrial Development in Peru, 1944*; *Industrial Development in Argentina, 1943*; A. P. WHITAKER: *Inter-American Affairs, 1943* (New York, 1944); S. E. HARRIS: *Economic Problems of Latin America, 1945*, Chapters I and II.

<sup>2</sup> For figures on Canadian production and war production, see: DOMINION BUREAU OF STATISTICS: *Monthly Review of Business Statistics* (various issues), and *Economic Conditions in Canada During 1944* (and earlier years); DEPART-

parts than it ever made before. The heavy chemical industry had been considerably enlarged. A great number of new products had been developed, among them machine tools, nylon, synthetic rubber, plastics, optical glass, and radio equipment.<sup>1</sup>

The Second World War, like the First, had the effect of advancing industrial development in *India*, for, in consequence of the considerable reduction in imports, the country was obliged, as far as possible, to produce manufactured goods for its own immediate needs. During the greater part of the critical period of the war, however, the distances separating India from countries capable of providing the necessary machinery for a rapid or substantial development of industry on new lines were such as to make so large a demand on shipping that there was an effective deterrent to the import of capital goods. Consequently, the wartime expansion in production has been for the most part confined to lines already well established before the war or those which could be initiated largely, if not solely, with such resources of capital goods and skilled workers as were readily available. Iron and steel production has expanded appreciably and there has been similar expansion in the engineering and electrical industries. The leather, silk, timber and glass industries, among others, have also increased their output substantially in response to wartime demands, and a number of new industries, including, in particular, chemicals and drugs, medicines and dressings, have been established.

In *Australia*, the steel industry has increased its output; all types of machine tools are being made, and the chemical industry has been considerably enlarged.<sup>2</sup> In *South Africa*, similar strides have been made in the iron, steel, and engineering industries. The doubling of the output of farm machinery has been accompanied by a rise in the food industry. In the *British Colonies*, there was increased production of copper and tungsten in Rhodesia, of tin in Nigeria, of bauxite in British Guiana, of chromite in Sierra Leone, and of manganese in the Gold Coast. Throughout the *Middle East*, remarkable progress has been achieved. The area under cereal crops has grown by more than two million acres. Manufacturing in light industries has developed, especially in Palestine and in Egypt.

MENT OF MUNITIONS AND SUPPLY: *The Industrial Front* (especially Volume 5); C. D. HOWE (Minister of Munitions and Supply): Report to Parliament, *House of Commons Debates*, 11 June 1943; WARTIME INFORMATION BOARD: *Canada at War* (especially No. 40, Sept. 1944).

<sup>1</sup> Wilson C. FLAKE: "Australia: The Dramatic Course of its Wartime Economy", in *Foreign Commerce Weekly*, 9 Dec. 1944.

### THE NEW INDUSTRIAL STRUCTURE

It is possible to group the changes in industrial production which took place during the war into the following categories: the increased production of armaments resulting from conversion from peacetime to wartime production or from erection of new plants; the increase of heavy industry, machine tools, and capital goods in general; the expansion of light metal production; the great increase in the production of substitutes and new materials; and finally the creation of new industries not destined primarily for war production.

All these changes were made hastily under the impact of war; and it is obvious that little attention could be given to co-ordinating the production programme with regard to post-war needs and international economic relations. The war absorbed all goods that were made and used a great part of them for destruction. The increased productive capacity, however, will remain after the war, and new markets will have to be found for peacetime products. While the problem of economic readjustment will be present everywhere, it will differ in degree and intensity from country to country and from industry to industry. In some countries reconversion will be the chief task, in others it will be aggravated by the need for reconstruction, and in still others the programme of readjustment will be instrumental in fostering new economic development.

In analysing the effects of changes on peacetime employment in the industries concerned, only some general remarks can be made; to be more definite would require a detailed examination of each case. Some reconversion of wartime production to peacetime use should be relatively simple, such as the automobile industry, the radio industry, the leather industry, and many others. The problem will be different where new plants were erected or the existing ones greatly expanded for the production of armaments and capital goods. A few such plants might be considered to be only a war investment, which may not be used for peacetime purposes, as, for example, the Ford Willow Run plant in the United States, for heavy bombers. Certainly, in many instances an attempt will be made to find markets for the increased capacity for capital goods and to convert armament plants for the manufacture of durable consumer goods. In the first years after the war, the demand for goods may absorb this increased production. Everywhere an abnormal amount of capital and maintenance expenditure is expected, and the policy of industrialisation of Latin America, the Soviet Union, China, India, and eastern Europe could provide a substantial outlet for the capital goods industries. Piled-up

demand should also provide temporary markets for durable consumer goods. But only high levels of employment and income will assure a permanent market for the enlarged production of capital and durable consumer goods.

The increase in production of aluminium and magnesium is among the greatest which has occurred in any industry. The world production of aluminium in 1939 totalled 666,000 tons; in 1943 the United States alone produced more than 1 million tons (148,400 tons in 1939) and Canada about 500,000 tons (75,000 tons in 1939). The production of magnesium in the United States reached about 180,000 tons in 1943, against 4,000 tons in 1939. In other countries the output of these light metals also increased. The future of these industries depends on several factors, such, as for example, whether new uses for aluminium and magnesium can be found, and the extent to which it will be possible to substitute them for other metals. The relative cost of production as well as their technical qualities will be decisive for the future of these metals.

The prospects of the production of synthetics will be important both for the countries producing them and for the countries producing the raw materials for which the synthetic materials are substitutes. The questions involved in this problem have been widely discussed in connection with the synthetic rubber production in the United States, the largest pre-war consumer of natural rubber. What effect would it have on the economies of the Netherlands East Indies and British Malaya if the United States should decide to meet its rubber demand with synthetic rubber? Would an increasing demand for rubber in the rest of the world offset the loss of the biggest market for rubber, and within what time? How would such a decision influence the exports of the United States and of other countries, such as Great Britain and the Netherlands, to the rubber-producing areas? The repercussions which the production of synthetic rubber in the United States would have on the structure of world trade are seen more clearly than those of the production of other synthetics; however, such production will in every case bring about changes in international trade.

Continental Europe under Nazi domination has become the centre of the production of synthetics.<sup>1</sup> Oil, rubber and textile fibres, to which a steadily growing variety of plastics must be added, are the most important items. Some of the products will hardly be manufactured in peacetime, as for instance substitutes for fodder, called *Futterhefe*. The production of synthetics was not limited to Germany; a number of plants were erected in Austria,

<sup>1</sup> Cecil H. DESCH: *Substitute Materials in War and Peace* (Royal Institute of International Affairs, London, 1943).

Czechoslovakia, Hungary, Poland, Italy, Sweden, and France. Strategic considerations will probably put a ban on synthetic oil and rubber production in Germany, and on the other hand may cause the maintenance of synthetic rubber production in the United States, with some of the plants in operation and the rest kept as a strategical reserve.

While it may be easy to make a decision regarding synthetic oil, because its price is substantially higher than that of the natural product and no special qualities have been attributed to it, the situation regarding other synthetics might not be so clear. In the group of synthetic fibres, particularly the substitutes for cotton, technological developments have resulted in the production of fibres of good quality and of some which are considered, not as substitutes, but as new kinds. Similarly, synthetic rubber is considered better suited for some uses than natural rubber. Furthermore, a great many plastics will replace other materials used hitherto.

It is certainly in line with technological progress that synthetic and new materials should be used if they are better or cheaper. There is, however, one more factor which has to be considered. The weakened economic and financial position of Great Britain and the countries of the European continent might in certain circumstances induce these countries to continue or even increase synthetic production of all kinds at higher prices if, in consequence of foreign exchange shortage, they found it difficult to buy raw materials overseas. The problem of the production of synthetics is therefore related to the future trends of international trade.

Thus the inability of Europe to import overseas raw materials during the war led to an expansion of the production of synthetics, a development which may have future repercussions on countries producing various raw materials. At the same time, the difficulties of getting manufactured goods, particularly from the continent of Europe and from Great Britain, furnished a powerful stimulus to industrialisation in many countries, which, added to the planned new production of the reconverted war plants, will not remain without effect on industries in the old industrialised countries.

The new industrial production will undoubtedly replace many previously imported goods. The import structure of newly industrialised countries will change. The imports of capital goods will increase and there will be a steady demand for machinery for replacement and improvement and probably for semi-manufactured goods and goods of higher quality.

### SHAPING OF THE NEW STRUCTURE

The new structure of the world economy will be shaped in the course of a tremendous process of reconversion and capital investment during the transition period. In the preceding chapters the following measures for assisting this process have been discussed: (1) stimulating as far as necessary and at the same time controlling private investment; (2) using public investment to carry out such tasks in reconstruction as cannot be performed effectively by private enterprise; (3) maintaining a high level of employment and income throughout the transition period, while at the same time avoiding inflation, and thus enabling the national economies to evolve gradually an industrial structure corresponding to a high level of employment in the post-transition period; (4) organising international trade and capital movements in such a way as to satisfy the urgent rehabilitation and reconstruction requirements of the devastated countries, which are subject to acute shortages of food, raw materials and productive equipment, and at the same time to facilitate structural changes in the excess-saving countries, which may face at various stages of transition the problem of "over-supply" in many industries.

It must be added here that along with devastated countries the agricultural and raw-material producing countries, which did not suffer from the direct consequences of the war operations, but which could not satisfy their import requirements during the war, should receive their due share of international assistance in shaping their new economic structure. While the higher priority of devastated countries should be recognised, arrangements might be made to meet the import requirements of the non-industrialised countries, in particular their requirements for capital goods to develop their industry and agriculture; and the financing of the imports in question might be facilitated by long-term loans at low rates of interest.

Moreover, in terminating contracts for supplying raw materials for war production, measures should be taken to reduce to the minimum the resulting disturbances in the economies of the agricultural and raw-material producing countries. While industrialisation assisted by capital imports will in the longer run take care of the transfer of resources to other types of production in the immediate future, contracts for war materials might be replaced by contracts for food and materials required for the relief and reconstruction of devastated countries.

The policies which will be applied in the transition period will have a profound effect upon the new economic structure of the

world. In particular, the volume of capital movements from the excess savings countries to the devastated and under-developed countries will be an important determinant of the processes of reconstruction and industrialisation. Further, success or failure in maintaining high levels of employment and income will affect not only the volume but also the structure of world demand for goods and services. Finally, possible differences in the levels of employment achieved by various countries will have a far-reaching effect upon the future structure of international trade and thus upon the new structure of the world economy.

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## CHAPTER X

### THE ORGANISATION OF EMPLOYMENT

#### INTRODUCTION

The preceding chapters have analysed many of the transitional problems involved in maintaining a high level of employment, and at the same time avoiding inflation. A further essential aspect of this question, however, is the existence in each country of effective machinery for integrating demobilised and repatriated persons and workers displaced from war employment into productive peacetime employment. Full employment can exist and be maintained only if each country is equipped with satisfactory means of bringing together available workers and available jobs.

The magnitude and the character of the employment adjustments to be made in the change-over to peace production have become clearer with each month of war. The magnitude of the problem is now fairly well known. In some countries from one third to one half of the working population must change their jobs or occupation. Countless numbers of these must change their place of work. The character of the problem has also become more apparent since recruitment for war industries and the forces has passed its peak, the war in Europe has come to an end, and the trend of post-war employment opportunities has begun to emerge.

This Report has already drawn attention to the employment adjustments which must take place during the transition from war to peace. Changes in the structure and distribution of industry and trade involve corresponding changes in the structure of employment. Measures taken to promote full employment after the war in each of the fields of policy surveyed so far have all a direct effect on the distribution of employment opportunity. They set a new pattern of labour requirements, demanding reorientation of skill and adaptability on the part of many workers in each country.

Accordingly, plans for maintaining a high level of employment in the transition must, as stated in the preamble to the Employment (Transition from War to Peace) Recommendation, 1944, include "effective organisation to help employers to secure the most suitable workers, to help workers to find the most suitable employment, and generally to ensure that, at any given moment,

the necessary skills are available and are distributed satisfactorily among the various branches of production and the various areas". That Recommendation, unanimously adopted by the Conference, sets forth a series of principles to govern employment organisation in relation to the needs of the transition. During the period of time which has elapsed since the adoption of this Recommendation nothing has happened to modify its principles. Much has happened, however, to place the Recommendation in an urgent perspective. The transition period is here. Already, therefore, the principles have acquired the practical and immediate character which they could not have had in the spring of 1944.

The purpose of this chapter is to describe briefly what has been done in the various countries to apply the principles of employment organisation agreed upon by the Conference a year ago to facilitate the solution of the human problems of the transition period.

#### INFORMATION ON PROSPECTIVE LABOUR SUPPLY AND DEMAND

An essential preliminary for planning manpower redistribution during the transition is adequate factual information concerning prospective labour supply and demand. Material is needed to show as clearly as possible the number, location, occupational skills, experience and interests of the men and women who will be seeking employment immediately after the war and the character and location of the employment opportunities which are likely to be available for them. This was recognised by the Conference at its last session. With the war in Europe at an end, the task of collecting advance information on labour supply and requirements has become urgent in all countries. At the same time, it has been simplified in some respects by the more accurate possibilities of forecasting the timing of the transition.

Most countries at war have begun studies directly aimed at providing this type of information. In *Australia*, the census of Army personnel undertaken in 1943 was satisfactory enough to lead the Government to undertake a census of Royal Air Force personnel, with a view to finding out each man's pre-enlistment occupation and industry, whether his civilian job is open, whether he wishes to change his job or occupation, and whether he wants training. A second occupational survey of civilian workers is being undertaken by the Commonwealth Labour Department, to provide a basis for planning the reallocation of manpower in the transition. The Department of Post-War Reconstruction is preparing a Manpower Budget for the early post-war period based on estimates of the supply and qualifications of workers who will

be seeking employment, and the transition period plans of industry, the supply of raw materials, and other factors affecting labour requirements. The *Canadian* Department of Labour undertook a comprehensive survey of labour requirements and supply for the period following the defeat of Germany (a Post-War Employment Survey of Employers and a Post-War Intentions Survey of War Workers); and a number of "spot" surveys of the occupational plans of men and women in the armed forces have also been carried out. The Department of Reconstruction, which has general responsibility for co-ordinating information on labour requirements and job opportunities, has begun surveys of the immediate post-war problems and prospects of the major industries. In *New Zealand*, the Organisation for National Development has appointed a subcommittee to guide the work of the Rehabilitation Department in making "an occupational survey with a view to ascertaining the mental and physical and training requirements for every occupation"; it is estimated that well over 1,000 separate occupations in the national economy will be studied. In addition, a questionnaire is being sent to the local authorities of towns with 1,000 or more persons with a view to assembling information needed for the establishment of industries. The Directorate of Welfare and Demobilisation in the *Union of South Africa* is making a special survey, in co-operation with employers and the Trades and Labour Council, to find out which of the civilian workers and armed forces personnel will need training or retraining and what job opportunities will exist for them. An occupational questionnaire has been filled out by each member of the forces. The Directorate has also sent to all private employers a questionnaire on their post-war labour requirements and training possibilities, and is carrying out surveys of Government departments, earmarking vacancies for ex-service personnel. A special effort was made to enlist the full co-operation of employers; the purpose of the survey and the contents of the questionnaire were explained in advance.

At regular intervals during the war the Government of *Great Britain* has collected material from employers to show the existing distribution of industrial employment and future demands (for the next 3 to 6 months) for workers from certain of the industries covered, and periodically the Ministry of Labour has also surveyed the supply and distribution of workers. The methods to be used in the transition period will be based on the methods which have worked successfully during the war as a basis for manpower redistribution. The Board of Trade has asked trade association members what percentage of their pre-war labour force they expected to employ after the end of hostilities in Europe, and has requested

selected firms to give an estimate of the volume of labour required to produce their normal products after all war contracts have been completed. A census of distribution is also planned. Moreover, with a view to drafting post-war regional development schemes, the Board of Trade has begun detailed surveys of the industrial prospects and needs of the various regions. In the *United States*, a variety of agencies have already started or are planning surveys of prospective labour requirements and supply in the transition period, under the general supervision of the Director of War Mobilization and Reconversion. For example, the Bureau of Labor Statistics is engaged on a number of studies of the employment redistribution which will have to take place after the war and of the effect of the war on the labour requirements of particular industries and areas. The War Manpower Commission is studying problems of labour reallocation in general and in specific occupations and areas. The Women's Bureau is making a survey of the post-war intentions and prospects of women workers and of the outlook for them generally and in particular industries and activities. The agencies dealing with the demobilisation and re-employment of the armed forces (the Information and Education Division of the Army Service Forces, in particular) have been surveying the occupational plans of the men and women on active service.

On the European continent, the problem of collecting information is enormously complicated by such factors as the vast displacement of population, the lack of records during the occupation, the shortage of transport and communications, the conditions in which repatriation is taking place, and the administrative disorganisation which necessarily accompanied liberation. The importance of providing a factual basis for reconstruction employment plans, however, is clearly recognised. Efforts have been made in both *France* and *Belgium* to ascertain the requirements of essential industries and services, and the qualifications and wishes of the persons now unemployed and seeking work and of those returning home from prison camps or forced labour. In *France*, for example, an occupational census of workers has been made by the Ministry of Labour, on the basis of information from employers concerning their workers, and questionnaires filled out by men between the ages of 18 and 48, and efforts have been made to interview ex-prisoners and others being repatriated at special centres before their dispersal to their homes. The special difficulties of the liberated countries may be somewhat alleviated by the type of co-operation proposed in the Employment (Transition from War to Peace) Recommendation, 1944, that is, co-operation

among Governments in providing occupational information in respect of persons who have been transferred out of their own countries as a result of Axis aggression and are awaiting repatriation. In February 1945, there were reported to be about 1,000,000 foreign displaced persons in *France*, in regard to whom the French Government was presumably negotiating with the Governments concerned.

There are great difficulties in obtaining satisfactory advance information on prospective labour requirements and supply during the change-over from war to peace. Employers (especially those in the liberated countries) consider that many factors influencing their post-war plans are not yet sufficiently clear to make it possible to do more than make a rough guess concerning their labour requirements. Men and women in the forces or returning home after a lengthy period of deportation feel that they know far too little about conditions in their home countries to formulate employment plans which have a chance of being practical. Workers in war industries in which operations will be curtailed are uncertain of the industries and localities where job opportunities are apt to be available, and many of them are in a position where their future plans depend on other members of the family. These difficulties are real, and they cannot be altogether overcome. Nevertheless, it is both necessary and useful to assemble as much information as possible.

Surveys to provide information on labour requirements and labour supply are of direct concern to the employers' and workers' organisations of every country, as well as to the employment service. These organisations need this kind of information as a basis for their plans, just as does the Government. Moreover, no Government surveys can be made effectively without their full co-operation. If their representatives are consulted in the drawing up of the plans for informational surveys, they are often able to introduce practical improvements. If they are acquainted with the reasons for the surveys and the results hoped for from them, they can do a great deal to obtain from individual employers and workers the co-operation essential to making the data as complete and accurate as possible. Finally, they are often in a position to supplement Government surveys with surveys of their own memberships. This has been done in a few countries by some organisations with useful results.

#### DEMobilisation of THE ARMED FORCES

The 1944 Session of the Conference took account of the fact that a large part of the success of any demobilisation scheme will

depend on the extent to which its principles and procedures are understood by the men in the forces, their families, and the public as a whole, and accepted by them as fair. The first step in promoting more widespread understanding of the demobilisation process is, of course, the publication of some kind of plan—even though any plan must be subject to change for military reasons. During the year May 1944 to May 1945, preliminary plans for partial demobilisation following the defeat of Germany were issued in the *United States*, *Great Britain*, *Australia*, and the *Union of South Africa*, and were almost completed in *New Zealand* and *Canada*.<sup>1</sup> Demobilisation arrangements for the *Indian Army* will as far as possible accord with those adopted for the *British Army*.

The plans to govern the process of release from the forces have a number of points of similarity. The first, common to all the plans, is that military needs must be the dominant consideration. The second is that release must be as speedy as military exigencies and the transport situation allow. Both of these points were recognised by the 1944 Session of the Conference. So far as employment planning is concerned, they constitute the frame within which the dovetailing of military demobilisation with industrial reconversion must be planned.

Even though it is virtually impossible to control the rate of outflow on any principles other than military needs and transport facilities, there is considerable scope for planning demobilisation with some regard for the employment situation. Thus, while no country considers it desirable or practical to disregard the all-important factor of length of service, with consideration of the character of the service, and while some countries add other factors e.g., age in *Great Britain* and *Australia*, and marital status or dependent children in the *United States* and *Australia*, the plans of most countries include arrangements which serve indirectly to relate demobilisation to the domestic employment situation. In *Australia* and *Great Britain*, limited provision is made for the release of special persons or occupational groups; this is not intended to transgress the normal arrangements for the order of release, but merely to respond to particularly urgent needs of the transition period. *Australia's* plan makes exceptions for certain men whose release is considered essential on occupational or training grounds. *Great Britain's* plan provides for the release of persons in occupational classes specified by the Minister of Labour as required for urgent reconstruction work and of a limited number of

<sup>1</sup> Preliminary plans for *Canada* were announced in June 1945. During the same month it was stated that the Council of Peoples' Commissars in the *Soviet Union* had proposed a planned demobilisation scheme, involving the release of millions of men in the 13 oldest age groups.

individual specialists, for whose release application may be made through Government departments. Only in the *Union of South Africa* is discharge from the forces conditioned on the availability of suitable employment; no man is released from the forces until suitable employment or training has been found for him. The *United States* Congress, on the other hand, stipulated in the War Mobilization and Reconversion Act, 1944, that the War and Navy Departments shall not retain any persons in the armed forces for the purpose of awaiting employment opportunities or preventing unemployment.

In the liberated countries, the repatriation and demobilisation of prisoners of war and deportees has proceeded more rapidly than had at first been considered possible, especially in *France* and *Belgium*. The French Ministry of Prisoners and Deportees estimated that by April 1945 140,000 prisoners and deportees had been repatriated and that the rate of repatriation would rise from 20,000 to 50,000 per day. Circumstances have combined to make it far more difficult in these countries to give consideration to any factor other than finding the transport to get the men back home as quickly as possible. The problem in these countries is also complicated by the fact that national armies have to be built up at the same time as prisoners and deportees are repatriated and reintegrated in civil life.

The fact that demobilisation cannot as a rule be related closely to the employment situation means that a greater burden is placed on the machinery of employment organisation, and that this machinery must be equipped to carry the load. It also means that, to avoid hardship for returning veterans, re-employment plans must be drafted in such a way as to protect the individual from the misfortunes bound to arise in a reallocation of manpower governed by mixed considerations, some of which may be difficult to harmonise with the interests of domestic full employment.

Most countries have schemes for the reinstatement of ex-service personnel in their former civil employment. These schemes, drafted on or soon after the outbreak of war, were conceived rather as a part of organising for war than of demobilising at the end of the war. During the last year, these schemes have had a limited practical test. Loop-holes have been discovered through experience and improvements have been made. All the same, reinstatement plans are by no means a solution for the re-employment problems of many veterans. There have been vast changes in the demand for labour, in employment opportunities and in specific jobs. There have been equally far-reaching changes in the skills, experience, abilities and interests of the men and women in the forces. More-

over, the war has been so prolonged that often two, three or more persons have been called up from the same job; once one of them is reinstated, the rights of his successors lapse. In the liberated countries, these difficulties of reinstatement are multiplied many times over. The provisional Governments have to decide whether to restore the guarantees given at the outbreak of war but not maintained during the occupation, and whether, if they do, this would have any practical value for the repatriated workers and prisoners of war.<sup>1</sup>

These limitations of individual guarantees of reinstatement have won increasing recognition. Emphasis is now being placed on discriminatory application of reinstatement plans. As the Director-General of Manpower in *Great Britain* has said, compliance with a statute is not enough; "good will, good sense and fair dealing" are needed. Moreover, Government spokesmen in *Australia*, *Canada*, *Great Britain*, *New Zealand* and the *United States* have warned that too much must not be expected of reinstatement plans. They have urged, as did the Employment (Transition from War to Peace) Recommendation, 1944, that these plans be supplemented by other measures to assure returning servicemen and women "the fullest possible employment and advancement opportunities on the basis of their qualifications".

Preference for veterans and deportees in certain kinds of employment may sometimes help to give them a fair chance at the available jobs; laws and practices for this purpose are being strengthened and extended in a number of countries. For others, schemes for education and technical training, for land settlement, and assistance in finding a footing in the professions or in small undertakings may provide the solution. For still others, benefits or special allowances will be needed to tide them over temporary periods of unemployment that may precede the finding of suitable work. All these are part of national programmes for resettling members of the armed forces in civil life. The gaps in effective provision for demobilisation and resettlement lie today in the application of policy rather than in decisions of principle upon what is needed to help returning veterans find suitable work.

But in final analysis, the best way—the only way, in fact—of assuring adequate employment opportunities to war veterans and returning deportees is by full employment planning so that there are enough jobs for all. Job competition between demobilised soldiers or repatriated persons and displaced war workers would

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<sup>1</sup> The Government of *France* has taken action to guarantee returning prisoners and deportees their pre-war jobs, wherever possible, and to prevent their dismissal for at least 6 months after reinstatement.

foster unreal social antagonisms and tend to destroy the unity of purpose with which the employment adjustment of the transition period should be approached. As the July 1944 agreement between veterans' organisations and trade unions in the United States points out: "the welfare of the nation's veterans is ultimately dependent upon the well-being of the community as a whole". Moreover, the members of the armed forces and those who have been deported by the enemy are a cross-section of the working population of each country. On demobilisation or repatriation, their special needs tend more and more to merge with those of the rest of that population. The basic principles of employment organisation during the transition from war to peace therefore apply to them as to all others.

#### INDUSTRIAL DEMOBILISATION AND CONVERSION

The release of war workers needs to be as carefully planned as the demobilisation of the forces and the repatriation of deported persons, and raises a number of special problems in the field of employment organisation.

##### *General Plans*

The 1944 Session of the Conference placed emphasis on the desirability of preparing co-ordinated national plans for industrial conversion and of supplementing these with plans for particular industries and areas. The principles underlying the recommendations of the Conference on this subject were that industrial conversion should be planned so that it would be rapid and orderly and so that transitional unemployment and other hardships to workers and their families would be avoided wherever possible. It was realised that no Government could prepare plans to meet the situation realistically without the full co-operation of management and labour; and it was therefore recommended that at all levels and at all stages of reconversion planning employers' and workers' representatives should be called upon for advice and assistance.

During the last year substantial progress has been made in the formulation of industrial demobilisation and conversion policy. A number of countries have made relatively clear-cut plans for the peacetime use of Government-owned war production capacity and equipment and for the termination or adjustment of Government contracts, and have set in motion the machinery needed for applying these plans. It is not possible here to summarise, even briefly, what has been done in the various nations to plan industrial conversion in relation to the employment situation. In general,

however, efforts have been made everywhere to try to synchronise the resumption of peacetime production with the curtailment of war production, to try to make the process work as smoothly as possible, and to keep it sufficiently flexible, so that special industry and area needs can be met.

Just as in plans for demobilising the armed forces, the release of war workers will be governed by a variety of considerations which preclude the possibility of applying in practice any perfect paper scheme for releasing the right number of workers with the right experience and skill at the time and in the area where they are needed for peacetime production. But within these practical limits, much can be done to plan industrial reconversion in such a way that the human problems are restricted both in their scope and gravity.

In *Great Britain*, for example, the Board of Trade and the Ministry of Labour are the Government departments primarily responsible for the conversion of industry and the reallocation of manpower. They are continuing to work most closely, at headquarters and at the regional level, to reduce the volume of munitions production and step up essential civilian production "industry by industry, factory by factory and locality by locality".<sup>1</sup> The Government has given consideration, as was urged by the Employment (Transition from War to Peace) Recommendation, 1944, to the early release of publicly-owned factories and equipment urgently needed for peacetime production and employment. By mid-1945, 35 of the State factories had been allocated with a total prospective employment of 150,000; some of the others are to be used as Ministry of Labour training centres for building operatives. *Australia's* Department of Post-War Reconstruction, which has taken over the functions of the Department of War Organisation of Industry, is generally responsible for the preparation of plans for industrial conversion. In planning the post-war disposition of Government-owned facilities, the Government has adhered firmly to the principle included in the Recommendation mentioned above that "in general, factories, equipment or materials should not be destroyed or kept out of use where human

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The regional boards which supervise industrial conversion, and which include representatives of Government departments (the Ministry of Labour, Board of Trade, and possibly others) and of employers' and workers' organisations, have been assigned four immediate tasks: (1) to supervise the handing back to industry of factories requisitioned during the war and to allocate Government factories to approved firms; (2) to ensure balanced industrial distribution (e.g., in former distressed areas) and to provide statistics of industrial activity; (3) to supervise industrial conversion generally and to give special attention to engineering; and (4) to supervise the reopening of factories closed down under the concentration of production scheme.

needs are unsatisfied or where no excess production would exist at reasonable prices under conditions of demand associated with full employment". The Secondary Industries Commission is engaged in investigations of the future prospects of employment in secondary industries which have been greatly expanded during the war. The *United States* has laid the basis for conversion by adopting in 1944 the Surplus Property Act, the Contract Settlement Act, and the War Mobilization and Reconversion Act, which lay down the principles to be followed in industrial demobilisation and the machinery to put them into effect. The last-mentioned Act has as a guiding principle one of the underlying policies of the Recommendation of 1944. It provides that "curtailments of war production or terminations of war contracts shall be integrated and synchronised with the expansion, resumption or initiation of production for other war purposes, and, to the greatest extent compatible with the effective prosecution of the war, of production for non-war use". The basic machinery for reconversion following the defeat of Germany has been set up and tested; policies and procedures have been worked out; the problem is now largely administrative, according to the then Director of War Mobilization and Reconversion. *Canada's* conversion policies, as outlined by the Minister of Reconstruction, are human as well as technical in character, aimed at making the change-over "with as little disturbance to the normal flow of employment and income in Canada as possible"; the Industrial Reconversion Branch of the Department of Reconstruction, in co-operation with the Department of Munitions and Supply, has begun detailed work to facilitate a smooth and rapid transition.<sup>1</sup> The Director-General of War Surplus and the War Assets Corporation, responsible for surplus disposal, are guiding their activities on the principle of controlling the flow of surpluses and the disposition of Crown-owned plant so that they facilitate the continued employment or rapid re-employment of labour in the transfer of industry from war to peace production. *New Zealand's* newly created Organisation for National Development is making plans to link the reconversion of industry directly with the long-term industrial future of the country and the full use of the people's skills. In the *Union of South Africa*, the problems of conversion are the responsibility of the Department of Industrial Planning, while the Soldiers and War Workers Employment Board, set up recently, is in charge of planning the release and re-employment of persons forced to change jobs during the transition. *India* is building up within the Department of

<sup>1</sup> Since the chief problems are expected to be of a regional rather than a national character, 12 regional councils are being set up to assist in reconversion.

Labour a Directorate-General of Resettlement and Employment, and the Central Government has made plans for the co-ordinated development, under central control, of basic industries and for planning the whole economy with the aim of achieving a high and stable level of employment.

Again, the liberated countries of Europe are faced with a multitude of special problems in planning industrial conversion and re-employment. Their possibilities of dovetailing the release of war workers with their re-employment are very small indeed. *France* and *Belgium*, for example, because of the difficulties mentioned elsewhere in this report, had to start the remobilisation of resources in the face of relatively extensive unemployment which could neither be avoided nor immediately absorbed. In *France*, at the end of February 1945, there were 350,000 wholly unemployed persons and another 1,500,000 on short-time, while at the same time there was a shortage of labour in certain industries such as agriculture, coal mining and building, due in large measure to the absence of many workers in Germany. In *Belgium*, there were 350,000 wholly unemployed persons, a much higher proportion of the working population than in France, and another 500,000 had temporary employment with the allied armies. *Luxembourg* has also had unemployment existing alongside of vacancies in mining and building. However, the provisional Governments are insistent that, within the practical limits imposed by material and transport shortages and other difficulties, full consideration must be given to the employment effects of reconstruction policy, and to temporary measures needed to facilitate the re-employment of the unemployed in accordance with urgent national requirements. In *Greece* as well, owing primarily to lack of materials, transport and fuel, every major branch of industry has suffered from difficulties causing unemployment and the Government has instituted a system of short-time and rotational employment. In *Italy*, considerable war damage was done to the transport system and to industrial plant and equipment and a certain amount was carried away by the Germans; unemployment was still relatively extensive by April 1945, and extremely hard to remedy. Re-employment could be planned only on a temporary basis or in connection with the long-term reconstruction of productive capacity, which continuing military operations and other factors made it almost impossible to start. In *Poland*, it was reported in June 1945 that industry was employing over 60 per cent. of its pre-war labour force and that employment was increasing rapidly. A shortage of labour had already arisen in the textile and coal-mining industries.

*Co-operation of Employers' and Workers' Organisations*

The extent to which and the manner in which employers' and workers' representatives have been drawn into the machinery for planning industrial conversion varies considerably from country to country. On the whole, the principle of their participation is accepted and attention has been concentrated on working out the detailed procedures by which their full contribution can be made. The procedures so far adopted differ greatly from one country to another, both in their stage of development and in their substance.

In *Great Britain*, there has been little change in the formal and informal machinery for employer-worker consultation and participation in production and employment planning. It is significant that the regional boards, which will supervise industrial reconversion in the various regions, include representatives of employers and workers in their membership, and that in a number of industries co-ordinated plans for production and employment organisation after the war are beginning to emerge from joint discussions of the employers' and workers' representatives concerned. In the *United States*, formal statutory provision was made in the War Mobilization and Reconversion Act of 1944 for an Advisory Board of 12 members named to represent the public interest and to include three members chosen because of their management experience and three because of their labour experience. The general functions of the Board are to advise with the Director with respect to war mobilisation and reconversion, to make recommendations to the Director on legislation, policy and procedure, and to advise on methods for co-ordinating the reconversion programmes of the separate agencies. In addition, the management-labour committees of the War Manpower Commission, which have taken an active part in manpower mobilisation during the war, are being consulted on the reconversion programme; and industry advisory committees and labour advisory committees set up for individual industries by the War Production Board are already working out plans for the relaxation of controls and other aspects of reconversion of the industries. In *Canada*, the Minister of Reconstruction announced his intention of seeking labour and employer co-operation in carrying out the conversion programme, and the regional conversion councils include employers and workers in their membership. In *France*, in *Belgium*, in the *Netherlands* and in *Luxembourg*, machinery is being worked out to provide for the association of management and worker representatives in industrial reconstruction. In *France*, for example, the proposals for social and economic reconstruction drawn up by the

underground or by the Government have all recognised the necessity of associating workers in the planning of the national economy. Labour and manpower advisory councils, including employers' and trade union representatives, have been set up to assist the area and regional employment services, works committees have been set up in plants (linked with the operating machinery of the Ministries of Industrial Production and of Labour), and consultative machinery exists at the national level as well. All of these committees have been charged with extensive responsibilities in the production and employment reorganisation now under way.

The trade unions in most countries are not yet satisfied that they have been given adequate representation in the machinery of reconversion. One of their most pressing demands at the present time is for still further efforts to be made by Governments and employers to use fully the skill, experience and knowledge of the trade union movement in the planning of industrial conversion for the common well-being.<sup>1</sup> Employers' organisations are equally insistent that to be realistic, all Government planning be done in close consultation with industry. Both groups take the view that reconstruction and reconversion planning is a task of such magnitude as to demand the united efforts of Governments, employers and workers. Most Governments are in agreement with this principle, and the immediate problem is to work out better ways for seeing to it that re-employment of manpower in the transition period is in fact, as well as in principle, a common responsibility and obligation of all three groups.

#### *Advance Notice of Production Changes*

The last session of the Conference attached special importance to the adoption of methods for ensuring that advance notice of the extent and timing of production shifts reached the agencies directly concerned with the re-employment of the persons affected by these programme changes. It recommended that, to facilitate planning for the re-employment of war workers, all information on industrial demobilisation and conversion should be made available to the authorities responsible for collecting advance information on labour supply and requirements. Beyond this, it urged that the employment service and Government contractors should receive as long advance notice as possible from procurement agencies of any circumstances likely to cause dismissals or lay-offs. Employers

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<sup>1</sup> The post-war reconstruction charter adopted by the World Trade Union Conference, for instance, urges all Governments to establish "an adequate measure of public control and direction, with the participation of trade unions, to carry into effect this process of industrial reconversion".

should also give the employment service at least two weeks' advance notice of proposed dismissals affecting any sizable number of workers. As a result, the employment service would be in a position to make plans for alternative employment for the workers concerned.

These principles have generally been accepted in the plans issued so far, and the machinery for implementing them seems to be starting to function fairly smoothly in the countries of the United Nations most affected to date by war production changes—the *United States*, *Great Britain* and *Canada*. However, there is admittedly considerable room for improvement in the channelling of advance information to managements, the workers concerned and the employment service. For example, in a survey of the effects of war contract cut-backs the *United States* Bureau of Labor Statistics reported that cut-back notification tended to be abrupt; in one fourth of the cases the cut-backs were effective immediately upon receipt of the notice, and in more than half of the cases notice of less than a month was given. In about half the plants the workers were notified of their dismissal during the week before its occurrence, some received no advance notice at all, and a very few received notice ranging up to a month or more.<sup>1</sup> In some cases, short notice is unavoidable in all countries; in others, it reflects a lack of effective co-ordination between the military authorities, the procurement agencies, the manpower authorities, and other agencies charged with production planning.

#### *Release of Workers*

The giving of the longest possible advance notice of programme shifts is a basic factor in planning towards an orderly release of the workers. Once this is known, steps can be taken to make their release as fair as possible for the individuals concerned and to ensure that organised assistance is available to help those released to find other employment with the shortest possible interval between jobs and the least possible interference with their lives. *New Zealand* has legislation empowering the Minister of Labour to keep civilians in employment, or to require the employers of those workers to keep them in employment, for a period, so that they will not all be displaced at the same time and so that their release

<sup>1</sup> In all cases, the notice is supposed to be given as far in advance as possible. Under a War Production Board procedure introduced in early 1945, procurement services are required to give the employers' and workers' representatives "timely and adequate" notification of any substantial cut-backs. In May 1945, the Chairman of the War Manpower Commission was asked by the conference of the national and regional management-labour committees to use his influence to establish a policy by the Government with respect to war contracts that will permit employers to give 30 days' notice before workers are dismissed or laid off.

can be dovetailed with employment openings elsewhere so far as possible, but information is not available on the application of these provisions.

In several countries, however, an order to govern the dismissal of workers from war industries has been put forward during the last year. In *Australia*, the usual trade union rule of "last to come, first to go" is reported to have been modified to some extent in munitions industries so that men eligible for military service, married women with husbands in full-time civil employment, and men with rural experience, may be discharged irrespective of length of service; returned soldiers, on the other hand, may be retained in spite of the rule. In *Canada*, the Employment Service has laid down an order of dismissal to guide the release of workers from war plants. Seniority rights under collective agreements will be respected, except that veterans will receive preferential treatment, if the employer and union agree. Where there is no agreement on seniority rights, veterans receive preference over others in retaining their jobs, workers needed by other essential industries in the same vicinity are the first to be released, workers needed by outside essential industries who can be transferred most easily (e.g., younger workers without family responsibilities) are the next, and finally, all workers with previous agricultural experience (particularly stock raising or all-year dairy farming) are released so long as workers continue to be required for agriculture.

In *Great Britain*, the principles to govern the reallocation of civilian manpower following the defeat of Germany and before the defeat of Japan, were set forth in a White Paper (Cmd. 6568) late in 1944. The Government's plans for carrying out the release and transfer of war workers, are, briefly, that all persons in a certain group (called Class K) may retire at once from employment irrespective of the work which they are doing (women with household responsibilities, women wishing to join husbands released from the forces, all women over 60, and men over 65), and in addition, women over 50 may apply for release from their jobs and the applications will be granted unless there are strong production reasons to the contrary. Persons in Class K and those who have worked away from home for 3 years or more, if they wish to work nearer home, are given priority of release from their existing jobs for transfer to work of importance, regardless of the work they are doing, unless this would handicap production. Within the frame of the principles laid down in the White Paper, the Ministry of Labour, after consulting the Joint Consultative Committee, has made specific arrangements for organising the release of workers. The procedure of selective release and transfer applies to all

redundant workers with a view to securing the release of workers who can be spared from essential production in certain categories and a fixed priority order (which is kept under continuous review).<sup>1</sup>

The two main unions with membership in the British engineering industry have come to an agreement whereby the first workers released from this industry will be women and men who had been brought into the industry as dilutees; there will be no discrimination between members of different unions. Other British trade unions are also giving consideration to the question of the order of displacement of temporary male and female staff employed for the war period.

In the *United States*, the order of release of workers from war industries is determined, as a rule, by the strict application of the seniority rule. Some union contracts have modified the usual

<sup>1</sup>Category 1. Men required for H.M. Forces (men aged 18-27, inclusive).

Category 2. Workpeople who have been away from home for three years or more who wish to be transferred to work nearer home (in general order of their length of absence).

Category 3. Workers in the following classes who wish to return home:

- (a) Ex-operatives from certain non-engineering industries required for their previous trades;
- (b) Engineering workers who can be employed in their home areas on priority work.

Category 4. Other workers required for important work elsewhere, e.g., in filling up bottlenecks and preference vacancies and vacancies specified in Category 3.

Category 5. Any additional workpeople required to make up the number of persons redundant, who are nominated for release by the firm. Selecting officers of the Ministry have been instructed that they should indicate that the management in selecting nominees will, no doubt, be guided by any relevant industrial agreements to which they may be a party.

The procedure which has been agreed for the purpose of arranging lists on these lines is as follows:

Where a firm decides, on information from the Government contracting department, the Ministry of Labour or otherwise, that it can dispense with a certain number of workpeople, it should bring the new priority arrangements to the notice of the workpeople, and prepare a list for submission to the labour supply officer, the number of persons to be declared redundant being made up, as far as possible, by calling for volunteers from the priority Categories 2 and 3 above-mentioned.

It has, of course, to be contemplated that in certain establishments which are reducing personnel or actually closing down, the number of those who volunteer to transfer will not meet the redundancy problem, and that in such cases it will be necessary for the list of redundant workers to be completed by selections from Categories 4 and 5. The list (apart from men required for H.M. Forces—Category 1) should be submitted to the workpeople's representatives for comment, and should the latter desire to propose alternative names, these should be considered, and in the absence of agreement submitted for final decision to the labour supply officer. The latter's instructions require him to take the management and the workpeople's representatives into full consultation and to assure to the employer a labour force adequate to cope with his reduced production.

As previously, it remains open to the employer or the worker concerned to appeal to the local appeal board against any decision of the labour supply officer. It also continues to be appropriate in cases where the release of a worker of vital importance is claimed, for the firm to take the matter up with the Government contracting department concerned with a view to securing his retention. Moreover, individuals may always apply for release if they have special cause to do so.

seniority principles, however, to take account of marital status and residence and to prevent discrimination against war veterans. In general, however, the American unions take the view that by far the most satisfactory method of ensuring fairness in dismissals is complete adherence to the seniority rule and labour-management co-operation in its application. Many employers endorse this view and the War Manpower Commission respects seniority agreements. Some employers, on the other hand, have asked that seniority be modified to permit fuller consideration of individual merit and family circumstances, but the trade unions feel that this would only open the way for all kinds of discrimination.

In order to avoid hardship to workers and to avoid loss of skill and experience to the national economy, many countries have instituted special arrangements for dealing with large-scale releases of war workers, so that dismissals may coincide with prompt re-employment action. In *Canada*, for example, where large numbers of workers are being dismissed from a plant, Selective Service officers are stationed in the establishment of the employer wherever possible (or in a special "blitz" office set up near the plant) to register workers for employment during their period of notice of dismissal and to help them find other work without delay. If the workers are paid wages instead of being given notice, arrangements are made for orderly reporting to the special office or to the local office, with the aim of controlling the numbers using the office, so that it will not be swamped at any one time.<sup>1</sup> The *United States* War Manpower Commission has suggested a number of specific steps to effect an orderly reallocation of workers released from war production in labour shortage areas. Its field representatives are instructed to enlist the co-operation of the employer and trade union and to plan with them the method by which the workers will be notified of their dismissal and released. As in *Canada*, employment service personnel may be stationed in a plant affected by large numbers of dismissals in order to take job applications or actually to refer workers to other jobs. If this is not done, a schedule for the reception of dismissed workers may be

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<sup>1</sup> A Selective Service Circular of 20 April 1945 contains the following instructions to local offices in regard to lay-off procedure:

"Representations have been made by unions that they should be advised regarding lay-offs, and the reason therefor, just as soon as possible. When local offices are first notified that lay-offs are contemplated they will request the employer to immediately consult with the union or unions involved, if there are collective bargaining agreements in force, and, if not, with representatives of the employees. The employer should be requested to give as much information as possible to the employees' representatives so that they may be fully informed of the reasons which make the lay-off necessary, and they, in turn, may pass this information to the employees themselves. It is believed that this procedure is in the interests of all concerned."

arranged at the local office so that they may secure service without undue delay. *Great Britain's* wartime arrangements, explained above, for releasing large numbers of workers from a plant or industry (which involve consultation with the employer and trade union concerned, and close collaboration between the district manpower office and the local employment exchange) are well adapted to use during the transition.

One problem of co-ordinating the release of war workers with their re-employment is that of seeing to it that the key workers needed for peacetime industrial expansion are made available at an early stage. A good many industries which wish to expand their operations lack the skilled and experienced workers they need as a cadre before the bulk of other workers can be absorbed. Under the normal order of dismissals in force in most countries, it would not follow that these skilled and experienced workers would be among the first to be released. Thus, just as under military demobilisation schemes, some countries are considering the desirability of providing for the release from war industries of certain workers and technicians urgently needed to start up operations in essential peacetime industries.

This problem is recognised in most countries. There is no easy solution, because, just as under demobilisation schemes, exceptions to the general order of release for certain individuals open the way for wire pulling and individual injustice. *Great Britain*, where the problem is particularly acute, has taken practical steps to deal with it. The Ministry of Labour and the Board of Trade, and the employers' and workers' organisations concerned, have agreed upon a procedure to facilitate the return of skilled operatives from munitions work to their old industries. The first step in the procedure, which now applies to clothing and boot and shoe workers, is the nomination of skilled workers by the industries. Officers of the Ministry of Labour then interview nominated workers and find out whether they will agree to go back to their former occupations. If so, the officers arrange for their transfer. The scheme rests on the willingness of the worker to give up one essential type of work for another (though if the worker is redundant in munitions, direction to a clothing or boot and shoe factory may be issued where necessary). If the worker is willing to transfer but his employer objects, the matter is referred to a district manpower board for decision.

One of the problems of major concern to dismissed workers is that of income maintenance during any period of unemployment between their dismissal and their re-employment. This question is dealt with in the following chapter.

In some countries, consideration has been given to the feasibility of guaranteeing reinstatement to workers compelled or persuaded to transfer to war work, in the same way as guarantees were provided for men called for military service. In *Canada*, for example, if an employed worker has been directed or requested by Selective Service to transfer to other employment, and if his first employer was duly notified of this, the worker is entitled, at the end of his second employment, to be reinstated in his former job in accordance with the Reinstatement in Civil Employment Act. In *New Zealand*, men and women "manpowered" to a wartime job have the benefit of occupational reinstatement in their former job after the period of direction has expired. In *Great Britain*, however, the Minister of Labour, after full consideration of the problem, came to the conclusion that it would be impossible to make satisfactory legislative provision for reinstating compulsorily transferred workers.

On the whole, the plans so far made for the release and re-employment of war workers are less advanced than those for the demobilisation of service men and women. It is harder to protect an industrial worker from the hazards of the transition period than it is to afford special safeguards to a member of the armed forces. This is partly because there is wider public recognition of the needs of members of the armed forces than of those of war workers. The loss of a job is looked upon as a far more normal event in a man's life than demobilisation from military service. It is more difficult, therefore, to ensure the provision of special and adequate public aid for displaced industrial workers.

The essentials of policy are as clear, however, for the one group as for the other. To repeat, they are, first, that conversion should be planned in a co-ordinated manner and with an eye to its effects on the continued employment or re-employment of the workers; second, that this reconversion planning should be based on the co-operative action of Governments, employers and trade unions, from the national down to the plant level; third, that advance information on production cut-backs and shifts should be given to the employment service in sufficient time so that the workers can be released according to a constructive plan rather than dismissed haphazardly; fourth, that, where necessary, special arrangements should be made to assure an orderly and just system of dismissals from undertakings reducing their labour force; and finally, that every effort should be made to find as quickly as possible suitable alternative employment for the workers who must move from one job or occupation to another.

Within the last year, it has become far more widely recognised that the adequacy of the plans for releasing and re-employing war workers plays a large part in determining the conditions in which demobilisation takes place. It is possible, therefore, that the coming year will see still further efforts to perfect methods for ensuring that displaced workers suffer no undue hardships of any kind from the loss of employment during the transition to peace.

#### RELAXATION OF EMPLOYMENT CONTROL

Whatever may be the practical possibilities of planning an orderly transition, the employment situation is bound to be complex. Millions of jobs will be vanishing, and millions of others will be appearing. There will be serious discrepancies between the demand for and the supply of workers in most industries, areas and occupations in most countries of the world. It would be asking the impossible to rely on each individual worker to find his way through this maze unaided and to move into the job which is best in the circumstances for him and for the economy. In the transition period, therefore, some kind of emergency employment supervision may be most useful to ensure, first, that each worker seeking a new job will be able to find the most suitable employment available, on the basis of full knowledge of existing opportunities and conditions, and second, that, in the process of redistribution, he finds his way into a job that contributes to reconstruction and rising living standards.

The task of supervising employment redistribution along these lines will fall largely to the employment service. In order to carry out the task with the efficiency expected of it, the service will need to be widely used by both employers and workers. In principle, the employment service will have to rely on its own merits. Its efficiency and ability to meet the needs of those seeking jobs or workers will determine the extent to which it is used by employers and workers. In the long run, this is entirely true. In the transition period, however, a number of countries have come to the conclusion that it may be necessary to strengthen the hand of the employment service by continuing temporarily some of its powers to control the flow of workers into employment and from one job to another; and still more countries consider that special efforts must be made to encourage wide use of public employment offices by employers and workers alike.

The Ministers of Labour in *Canada* and *Great Britain*, the Minister of Industrial Manpower in *New Zealand*, the Prime Minister and Federal Minister of Labour in *Australia*, and other official spokesmen have issued warnings that, while the aim of

policy is to remove all forms of employment control as soon as possible, to remove them too soon would be to invite a chaotic scramble for jobs and for workers prejudicial to all. In the *United States*, the Director of War Mobilization and Reconversion, in a report of April 1945, appealed for the enactment of national service legislation in order to provide the "positive manpower controls" needed to undertake reconversion and finish the war against Japan; employers' and workers' representatives, however, were in favour of the temporary continuance of parts of the voluntary manpower programme in areas or industries where this was necessary and desirable. The Governments of liberated countries realise that their whole reconstruction programmes may be endangered or delayed by the absence of adequate measures to ensure that essential labour requirements are met and that unemployment is held to a minimum; and it was primarily for this reason that the Governments of *France*, *Belgium*, the *Netherlands* and *Luxembourg* took immediate action to reorganise their employment services.

The problem is essentially one of revising wartime controls in the light of the different requirements of the transition period. The Government of *Great Britain* was the first to outline specific proposals for the adaptation of wartime employment controls to the needs of the transition. The White Paper on the reallocation of manpower between the defeat of Germany and that of Japan states that, while the goal is to redistribute workers on a voluntary basis so far as possible, the Government must retain a substantial amount of control over the movement of labour if the process is to be fair and orderly and if essential industries and services are to be properly manned. The power of direction will be used sparingly and only to divert persons to work of the highest urgency. The principles of the Essential Work Orders (which forbid dismissals or voluntary departures from scheduled employment without the permission of a National Service Officer) will be retained, though they may be applied to other industries than those to which they have been applied during the war, and though exceptions will be made to permit the release of workers who can no longer be expected to continue in paid employment of any kind. A general Control of Engagement Order has been issued covering all employments and all men between the ages of 18 and 50 and women of 18 and 40. Compulsory registrations for employment, including special registrations of particular classes of persons or of persons in or with experience of particular industries or occupations, will also be held as necessary. This is a relatively far-reaching system of employment control. As has been the case

during the war, its compulsory features will be far more extensive on paper than in practice. Its chief purpose is to equip the employment exchange network to guide the flow of men and women entering employment or changing jobs to meet the needs of reconstruction, and at the same time to ensure fairness to individuals. Parts of this programme became effective immediately after victory in Europe.<sup>1</sup>

The liberated countries face a much more acute situation than Great Britain. They have immediate problems in connection with the re-employment on urgent reconstruction work of returning prisoners, deported persons and displaced workers. The pre-war and occupation period operations of the employment market have been overturned. Information received so far indicates that in *Belgium*, *France*, *Greece*, *Luxembourg*, and the *Netherlands* serious consideration is being given to the introduction or maintenance of some system of controlling applications for work and for workers during the transition. *France*, for example, has maintained, in modified form, control over hirings and dismissals, and has also introduced national service for men in the 18-48 age group; the *Netherlands* Government has placed restrictions on hirings, dismissals and voluntary departures; and *Greece* controls engagements and dismissals in connection with its system of rotational employment.

*Canada* introduced, in May 1945, administrative relaxations of the control of employment of women workers. A woman may now seek and enter employment without first obtaining a Selective Service permit. Once she has obtained employment, a permit is automatically granted to her. Employers are still required to register vacancies with Selective Service, however, and unemployed women are required to register with a local office. It was emphasised that these relaxations are experimental and may be changed at any time according to the circumstances, and that experience of their operation may indicate the later pattern of relaxation of the controls affecting men. In July 1945 the Minister of Labour issued an Order requiring registration of male construction tradesmen and labourers, which will show the action necessary to meet the existing shortage of building trades workers.

Plans for the progressive relaxation of manpower controls in the *United States* following the end of the war in Europe have also been announced. Controls will be relaxed gradually on an area basis, according to the stringency of manpower for essential work.

<sup>1</sup> The general Control of Engagement Order came into effect on 4 June 1945. The changed programme is summarised in *International Labour Review*, Vol. LII, No. 4, Oct. 1945.

After July 1945, the labour market areas will be reclassified. On the recommendation of the national and regional management-labour committees of the War Manpower Commission, made in May 1945, decisions to retain or remove employment controls will originate with the area director of the Commission and the area management-labour committee.

The extent to which any system of employment supervision involving formal obligations of compliance is practical will vary with the needs of each country, its traditions, the competence of its administrative machinery, and the general level of employment. The public attitude, especially the attitude of management and labour, will also play a large part. Naturally, with the war in its final stage, employers and workers alike want to recover as quickly as possible the traditional freedoms which they agreed to abandon under the pressure of war needs. But precipitate action to recover these freedoms might prejudice the transition from war towards a constructive peace economy.

The freedom of a worker to move from one job to another is not the point at issue. His right to choose an occupational career, to change his employment or place of work, to improve his skill, and to better his working conditions, is not open to challenge. Hence, there is no question of forcing a worker into a particular job, tying a worker to a particular private employer, or compelling an employer to keep a particular worker in his employment. Even in wartime, employment controls are not intended to "freeze" workers in their jobs but rather to direct the mobility of labour to serve the national interest. Still more the post-war purpose of any employment controls which may be considered necessary should in no circumstances be to order workers and employers about but rather to supervise and guide employment changes so that they may correspond to the national need at that time as well as to individual interests.

This emphasises the importance of fully democratic machinery for applying any controls which may be retained. Trade unions and employers' organisations should therefore participate in each part of this machinery at every step of its operations. Otherwise there can be no satisfactory assurance that any controls in force during the transition period achieve their real purpose. The task of controlling employment is most delicate and particularly so in the transition to peace. It can certainly be carried out more satisfactorily to all concerned if the trade unions and employers are given an even larger policy-making and administrative role than they have had during the war. Specifically, it might be useful to allow the final decision on all appeals to be made by

committees which include representatives of trade unions and employers, where this is not already the practice.

Aside from the more comprehensive checks on the reallocation of workers, there are various ways of extending the use of the employment service by employers and workers so that job changes will conform to national needs. The Employment (Transition from War to Peace) Recommendation, 1944, mentions a few which are widely accepted. It urges, for example, that vacancies on public works and in undertakings working on public orders to the extent of 75 per cent. or more of their operations should be filled through the employment service. It also recommends that employers should be encouraged to give advance notice of their labour requirements to the service, and suggests that consideration should be given to the advisability of requiring employers in specified industries or areas to engage their workers through the employment service. On the side of labour supply, it recommends that persons applying for employment on Government-sponsored projects, persons applying for publicly supported training programmes or transfer assistance, and claimants for unemployment benefit or assistance, should be required to register for employment with the employment service. The application of these proposals would help bring the employment service into wider touch with employers and the working population. For some countries, these measures alone may be sufficient. In others, some more positive steps may be needed as a way of inducing an orderly employment adjustment made at as low a human cost as possible.

Regardless of what may be decided in regard to the extent and character of employment control in the transition period, it is important that any policy should be rooted in special efforts made by Governments, in close co-operation with employers' and workers' organisations, to encourage wide voluntary use of the public employment service by employers seeking labour and by workers seeking jobs. This was recommended by the 1944 Session of the Conference, and is one of the principal ways by which the men and women displaced or demobilised during the transition will be able to find their way into work suited to their requirements and to those of the economy.

#### VOCATIONAL GUIDANCE

Employment control is largely an emergency measure to meet the complexities of the transition period. A more positive method of aiding returning veterans and displaced workers to find their way into new jobs is vocational guidance. In this field, wartime developments hold great promise for the future.

One objective of employment organisation policy is to see to it that workers, including veterans, are in a position to find employment suited to their abilities, skills and experience and to their individual tastes. The goal is not *any* job, but *the* job which is best adapted to their needs. This is not only in the interests of the worker himself. It is to the immediate and permanent benefit of society. No country can afford haphazard distribution of its manpower, with the resultant loss of productive skill and efficiency. Vocational guidance is merely an organised effort to help society to avoid this waste and to help individual workers to choose an occupation on the basis of as much knowledge as can be assembled in regard to their own capacities and the condition and trend of employment.

During the war, the value of vocational guidance for adults has been far more widely recognised than ever before. New methods have been developed experimentally and put to practical use in the armed forces of almost all countries at war and, to a lesser extent, in civilian employment. Largely to meet the needs of returning veterans and displaced workers, a good many countries are now taking further action to consolidate war progress and to adapt wartime methods and machinery to post-war prospects.

The 1944 Session of the Conference called special attention to the need of adding vocational guidance facilities for adult workers to the machinery of employment organisation. The Employment (Transition from War to Peace) Recommendation, 1944, urges each Government "to the maximum extent possible" to provide public vocational guidance facilities available to persons seeking work, with a view to assisting them to find the most suitable employment.

During the last year a number of countries have taken initial steps to provide these facilities. In *Great Britain*, increasing emphasis is being placed on guidance offered as a part of normal employment exchange service. In addition, in every town in which there is an employment exchange, Resettlement Advice Offices are being opened as an extension of the employment services of the Ministry of Labour. These offices (which were to number 360 by June 1945) are to provide vocational advice of a general character to persons released from the armed forces or from other forms of war service and to help them in every way to deal with their re-employment problems. A number of specially selected officers are being sent to the various war theatres to explain the Government's resettlement services. The *United States* is greatly expanding its vocational counselling service. A number of local offices of the Employment Service were selected by the Manpower Commission

as demonstration centres for veterans' counselling. On the basis of their experience, it is planned to introduce a vocational guidance unit in each local employment office. In addition, the Veterans' Administration is supervising the operation of over 60 guidance centres, set up in schools, colleges and universities throughout the country; and an Employment Service representative, trained in counselling methods, is stationed in each of the 17 Army Separation Centres. *Canada* is likewise expanding its vocational guidance services, primarily in order to assist returning veterans, but also in relation to the permanent improvement of employment service work. A Veterans' Welfare Officer in each large centre of population has the specific duty of giving general advice to returned servicemen and directing them to the appropriate agency for re-employment assistance, and personnel counsellors are stationed at a number of service bases overseas and at release centres in Canada. In the *Union of South Africa*, a vocational guidance section of the Directorate of Demobilisation has been made responsible for providing every possible assistance to returned servicemen who have to change their occupations and do not know what type of work to seek. Vocational Guidance Officers are to be stationed at each dispersal depot and other suitable assembly points before discharge. Under the Registration for Employment Bill now under consideration, employment officers would be required to make provision for affording guidance to work seekers in regard to the choice of employment. In *New Zealand*, public facilities for vocational guidance for returned veterans, which will be available in principle for other adults as well, have been considerably developed. Full-time Vocational Guidance Officers are at work in the four main centres, and Honorary Education Advisers in 35 other centres. These officers work closely with the Rehabilitation Officers responsible for the general rehabilitation of returned veterans. In *Australia*, Vocational Guidance Sections have been set up in the Manpower Directorates of a number of the States; they function at the moment largely for juveniles and for ex-service personnel seeking counselling assistance. The Government proposes to extend vocational guidance work in connection with the employment facilities to be provided under the Re-establishment and Re-employment Bill.

Next in importance to the actual organisation of public guidance facilities available to all who wish assistance is the development of suitable methods and techniques for adults. Guidance facilities in every country were designed primarily to meet the needs of juvenile workers. Naturally, some of the same methods can be

used with equal success for adults, while others are quite unsuitable.

The major problem for the transition period, however, is to analyse war methods of guidance, and especially methods of personnel selection in the armed forces, and to see how they can best contribute to the development of vocational counselling for persons seeking employment after the war. The war has brought an increasing realisation that the choice of an occupation can be based on scientific or technical data rather than wholly on guess work, personal appraisal or chance.

Tests have been used with growing success in the armed forces, in the employment offices, and by a few large establishments. The *United States* has done a great deal of useful pioneering work in this field, first in the Employment Service and later in the army. More than 100 aptitude tests have been used experimentally, and two special types of tests have been developed as counselling tools: a "counselling battery", consisting of individual tests which can be given to all individuals choosing their field of work and scored for a large number of occupations, and an occupational interest questionnaire, made up of items representing various types of occupational activities. Many other countries, such as *France*, for example, use aptitude or psycho-technical tests, and are planning to develop various kinds of testing as a part of vocational guidance work.

Several countries are also taking steps to develop specialised guidance facilities for technical and professional workers. *Sweden* has placed considerable emphasis on this, in connection with the recent extension of public placement facilities for these workers. *Great Britain's* reorganised Appointments Department plans to make one of its most important single functions the provision of assistance to those "who have not only not yet a job, but who have not yet got an occupation and those who, though they may have an occupation, can for one reason or another no longer follow it". *Canada* has set up specialised guidance for engineering and science students and is planning to embark on more extensive guidance work for professional and executive workers. The *United States* Employment Service has also taken steps to expand guidance facilities for these categories of workers. Such developments derive in the main from the recognition that no country can afford, particularly in the transition period, to misuse the trained ability and intelligence of its men and women.

Other methods of guidance include the use of vocational films, literature, lectures, visits to factories, talks with employers and trade unionists, and so forth. Both individual and group guidance

are feasible for adults as well as for juveniles. For adults, however, emphasis must generally be on finding suitable types of work and a specific job as soon as possible, so as to hold to a minimum the loss of income consequent on unemployment. This tends to limit opportunities for group guidance (with the possible exception of guidance for men in the forces before demobilisation).

These methods are additional to the personal interview. There is no substitute for this, which must be based on as broad a technical basis as possible. As in all placement work, the methods of counselling interviews can be greatly improved. The quality of the staff engaged on the work will in large measure determine the success of the whole guidance programme. The present shortage of trained vocational counsellors in every country is a serious obstacle to the development of guidance facilities for veterans and displaced war workers. This lends particular emphasis to the paragraph of the Employment (Transition from War to Peace) Recommendation, 1944, calling upon the competent authorities, in co-operation with the private bodies concerned, to develop and maintain adequate training facilities for vocational guidance officers.

The task of guiding veterans and displaced workers into suitable employment will require the combined efforts of public and private agencies. The Employment Service will have to act in a supervisory and co-ordinating capacity, wherever the provision of guidance is not an integral part of employment service work. In a local employment office, there is no clear line of demarcation between the functions of interviewing for employment and placement and guidance work proper. The chief distinction is that guidance is designed to help an individual to make a well-informed choice of an occupation, whereas placement, including the employment interview, is primarily aimed at finding a specific job within the general field which has been chosen. In the absence of adequate specialised guidance facilities, much counselling will have to continue to form a basic part of employment office work. Certainly, all interviewing work in the employment service needs to be based on the principles of selection and placement worked out in the field of vocational guidance.

It would be impossible to exaggerate the importance of well-developed guidance work in the transition period. For any worker, the choice of an occupation is one of the most important events in his life. A foolish choice often cannot be remedied; a wise choice is apt to bring satisfactory work adjustment. For management, wise selection of work careers means a labour force qualified to do the work and a lower rate of turnover. For society, it means a

higher level of production based on full use of each individual's capacities and skills.

In the transition, these considerations are of paramount importance. Thousands of war veterans have new skills and ambitions and new aptitudes discovered in the armed forces, or have lost their old skills and interests. Thousands of repatriates returning from years in prison camps or at forced labour for the enemy will need careful guidance. Thousands of war workers have known but one job, not always suited to them, but thrust upon them by unavoidable war conditions, and have no idea of anything else or of their own capacities. Millions of people everywhere will need sympathetic and personalised encouragement and advice about their choice of work.

The channelling of these human resources into productive work during the transition period is not a task that can be left to chance or to the normal ministrations of non-specialist staff of any employment office. It is a highly skilled task, rich in opportunity; and the development of adequate guidance facilities, methods and staff for its performance is an investment that will stand to the credit of every country in the future.

#### TRAINING AND RETRAINING

The change-over from war to peace production requires a vast reorientation of human skill. The organisation of facilities for the conversion of working capacity to the changed and changing job requirements of the transition period is a task of utmost urgency. It will play a direct part in determining the productive efficiency of each national economy and, equally important, it will provide the means by which millions of war veterans and displaced workers can make their full contribution to peacetime production.

The outbreak of war caught the world short on training and retraining programmes for adult workers. The depression years, with limited post-training placement opportunities, had greatly narrowed the conception of the positive contribution of training programmes. The war has witnessed marked increases in the facilities available and in their co-ordination, in methods of training adult workers, and in the integration of training schemes with the practical requirements of industry. The working population of many countries had a chance to acquire and to use new skills.

On the other hand, the war has led to several less constructive developments. Large numbers of people have been trained in a fairly limited number of occupational fields, many of which will be contracting in many countries after the war. Well-rounded training courses have had to make way for short intensive courses. The

emphasis has necessarily been on simplified courses of training for specific types of work, divested, for the most part, of all but the essentials of knowledge needed for those kinds of work. In the liberated countries, there has been a further important factor. During the occupation, workers were trained largely to meet the needs of the German war economy; the skill requirements of their own countries have been ignored; and training facilities unrelated to the German war effort were shut down and often stripped of their equipment. Perversion of skill, therefore, has gone far beyond that required by the war in non-occupied countries, even in those most extensively mobilised for war. On the other hand, some unskilled workers were trained by the Germans for skilled work.

In some ways, therefore, the reorientation of training facilities during the transition period will be less difficult than the organisation of training for war purposes, because more facilities are available, experience of retraining adults has accumulated, and training programmes have been brought into closer touch with other aspects of employment planning and with management and labour. In other ways it will be more difficult. During the war, demands for skill have been specific and precise. It was possible to train workers who were specialised in particular types of jobs and to relate their training very closely to the work in which they were to be placed. After the war, skill requirements and job opportunities will be less clear, and training will be less specialised round specific types of jobs. To a considerable extent, the need will be for training able to produce adaptable, rather than specialised, workers. The training of millions of veterans and war workers has equipped very few of them with occupational versatility. The problems of developing adequate training facilities will certainly be more difficult in the liberated countries, where the need for training is extensive and immediate and so much is lacking to make it physically possible to get training restarted on a sound foundation, able to meet, at one and the same time, the needs of reconstruction and of repatriated and unemployed workers.

During the war, moreover, strong forces were operating to induce spontaneous occupational mobility in response to changed economic conditions. To take but one example, wages tended to be higher in the heavy war industries in most countries than in the non-essential industries; and this constituted an incentive to obtain the training necessary to transfer into these industries. During the transition period, however, the expanding industries may often have lower wage levels, and there may well be not only little incentive to shift into these occupations but a tendency to

cling to the war occupations which will be overcrowded for peace purposes. In any case, it would be wholly unrealistic to count on an automatic transference of manpower from one occupation to another according to the needs of the transition. Far more positive action is needed to guide the reorientation of skills so that needed post-war skills are available and satisfactorily adjusted to the new pattern of employment.

In this process, co-ordinated training and retraining programmes of all kinds will have a vital part. The Conference, at its last session, called particular attention to the indispensability of organising these programmes, in co-operation with employers' and workers' organisations, and of extending them and adapting them to meet the needs of demobilised persons, discharged war workers and all persons whose usual employment has been interrupted by war service or enemy action or resistance to the enemy.

During the last year, there has probably been more planning for training and retraining than in any other field of employment organisation. This is partly because manpower mobilisation for war reached a stage where training for war purposes diminished in importance, and facilities could be liberated for reconstruction training. It is partly because training is a critical problem of direct concern to all countries, whereas military demobilisation and even industrial conversion are important to a more limited number of countries. Finally, it is partly because post-war planning has brought into relief the need for effective training and retraining programmes as an integral part of the maintenance of high levels of employment in the transition.

It is not possible here to do more than call attention to a few developments in national plans for providing facilities for the training and retraining of war veterans and other workers during the transition period.<sup>1</sup>

In the first place, the organisation of training is being given a high priority in rapidly industrialising countries faced with shortages of skilled and semi-skilled industrial workers, foremen and technicians. The lack of trained workers is clearly recognised as one of the principal factors hindering industrial development in raising living standards; and training programmes are seen as an integral part of long-term development policies. Many of the *Central* and *South American* countries, for example, have taken action to expand their training programmes as an agency for facilitating industrial development. In *China*, despite numerous difficulties, persistent efforts are being made to increase the training facilities

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<sup>1</sup> Progress in the development of apprenticeship programmes is mentioned below (page 153).

available, and to improve equipment and methods. In *India*, the war training scheme was operating in August 1944 in 170 training centres, with a total capacity to train 32,000 persons. The Government is anxious to maintain the scheme in the post-war period and to extend it over the country. The Standing Advisory Committee on Technical Training has recommended that a certain number of centres should specialise in non-war training and that training should be more intense and practical and more closely linked with school education.

Secondly, in countries which have had to mobilise all their training facilities for war purposes—the *United States*, *Great Britain* and the other countries of the *British Commonwealth of Nations*—the problem for the transition period is essentially the overhauling of the entire programme from the point of view of the demands that will be made on it by displaced workers and returned veterans. Surveys of the armed forces and of civilian workers have indicated that these demands will be relatively extensive, and it is clear that they cannot be met on the basis of wartime training content and methods. The action taken in these countries has been aimed at adapting wartime facilities to new needs. All of them have, of course, developed their post-war programmes on the basis of their war schemes.

During the year following the last session of the Conference, a number of these schemes have come into limited operation. *Great Britain* announced the details of a national scheme for the industrial training for skilled occupations of members of the forces and others whose normal training had been interrupted by war service, and by 1945 the scheme was already functioning for disabled ex-servicemen. Under *Australia's Commonwealth Reconstruction Training Scheme*, some 3,000 ex-service men and women were receiving training in February 1945. Eligibility is being broadened to include civilian war workers, so as to provide skilled workers and other trained personnel for urgent post-war tasks.<sup>1</sup> *New Zealand's* rehabilitation trade training scheme is also being put into operation gradually as facilities, tools and instructors can be made available and problems solved in consultation with employers' and workers' organisations. Its emphasis is on training for the more skilled trades and particularly the training of building tradesmen. The *Union of South Africa* has been investigating the problems of post-war training—for example, the recognition that employers and trade unions would give to war trainees in the forces and war

<sup>1</sup> In June 1945 the Australian War Cabinet voted £4,000,000 to provide additional technical school facilities for ex-service personnel. The Acting Prime Minister estimated that 60,000 to 70,000 men would require full-time vocational training.

industries, and the prospective skill requirements of industry. *Canada* announced in the spring of 1945 a great expansion of its vocational training programme in order to meet the transition period training problems of veterans, war workers and women. The programme will operate through existing vocational schools and institutions and in-plant facilities, and will take over some of the centres and equipment previously used by the armed forces. A Royal Commission has been set up to evaluate the credits to be given veterans for training received in the forces and to investigate other problems connected with the extended programme. The *United States* has placed a good deal of emphasis on the adaptation of training programmes now in force to the needs of workers forced to change jobs in the transition period and to the further co-ordination of public and private agencies. The continuing functions of the vocational training programme, which is co-ordinated by the Bureau of Training of the War Manpower Commission, include, according to the Chairman of the Commission, the preparation for employment of beginning workers of all ages, including discharged veterans without much practical experience, the retraining of workers shifting from one department of a plant or from one industry to another, the provision of consultative services to employers wishing to organise in-plant training, the encouragement of joint management-labour training committees, and the organisation of additional training programmes as required.

Thirdly, in the liberated countries, special attention is being given to the reorganisation of training facilities. Their importance is fully appreciated in view of the existence of job vacancies which cannot be filled and the inroads on the skilled labour supply in these countries made by the enemy. In most of these countries the initial disorganisation of transport and communications meant that training had to be started on a far more decentralised basis than before the war or during the occupation. One of the first problems was to develop instructional and specialist staff for the various undertakings and for provincial training centres, and to do this centrally so that some uniformity of purpose, method and standards might be developed with the maximum of economy in materials, machinery, accommodation and other necessities. Thus, a *centre de formation des cadres* is functioning in Paris, and the youth-training programme includes provision for the training of instructors. A second problem was to find the bare essentials for training. Whether training was given in connection with an employer's establishment or in special centres, premises, tools, machinery, raw materials and other equipment had to be found at a time when far too little was available to meet the needs of

industries producing badly-needed production or consumption goods. To help meet this problem, the Governments are placing the organisation and equipment of training facilities high up on the priority list for the allocation of premises and supplies. A third problem was to determine the direction of training to be given. Essentially, this meant knowing post-war prospects in industry—a knowledge to which none of the liberation Governments pretended. In *France* and *Belgium*, investigations are on foot to find out which industries may be expanding and which may be contracting in the transition period and thereafter, in order to provide a guide for the training programmes. A few needs are obvious in both countries—the expansion of trained labour for the mining and building industries, for example. A fourth problem was to provide accelerated training to meet urgent reconstruction needs. In *France*, a programme for the accelerated training of 100,000 building trades workers has already been launched, in co-operation with the employers and workers concerned. A fifth problem was to provide training adapted to the special needs of returned prisoners and others who have spent long periods in prison or concentration camps or at forced labour which has taken a heavy toll of their health and morale. Immediate attention is being given to the organisation of special reconditioning centres for these men and women. In the *Netherlands*, a comprehensive training and retraining scheme is under consideration by the Ministry of Social Affairs for immediate application; *Luxembourg* is engaged in working out a revised training and retraining programme; and *Norway* and *Denmark* are already giving attention to training and retraining as a method of helping workers to shift jobs during the transition. These countries are meeting the same general problems as France and Belgium.

These are only a few of the difficult problems facing the liberated countries in the readaptation of their training facilities. They are being attacked with vigour, but assistance is needed from outside. This was foreseen by the 1944 Session of the Conference, which recommended that Members should co-operate in reconstituting and expanding vocational training and assist one another by such methods as providing training as instructors for persons from another country; the loan of experienced vocational training staff or new industrial needs in another country; facilitating the repatriation of persons qualified for teaching and instructing in their home country; and the provision of training handbooks and other equipment. These kinds of assistance might be equally useful in facilitating the expansion of the training of skilled labour and technicians in a number of *Latin American* countries and in

*China*, *Great Britain* and *India* plan to maintain the co-operative training arrangements made for war purposes.

Finally, the system of vocational training to increase the trained labour reserves of the *Soviet Union* for war and reconstruction purposes has continued to develop. In 1944, there were about 2,000 vocational and trade schools (including 200 opened that same year), and in the autumn of 1944, there were about 350,000 young persons enrolled in these schools, the great majority of them in intensive 6 months' industrial training courses. Altogether nearly 2,000,000 persons graduated from industrial training schools and were placed in industrial work during the three years ended July 1944. The training is specialised to fit specific economic needs. Many of the persons who have completed it are already engaged in rehabilitation and reconstruction work, following on the heels of the Red Army. The budget estimates for 1945 provide for the expenditure on the training of labour reserves of 3,329 million roubles, as compared with 2,660 million roubles in 1944. It is planned to increase the number of students in technical schools by 30 per cent.

One point on which the Conference placed general emphasis was that care should be taken in the transition period to ensure adequate opportunities for well-rounded training designed to fit the persons concerned for employment offering a permanent career. It was realised that fear of unemployment and low earnings during training would combine to tempt returned veterans and displaced workers to seek an immediate job or the shortest possible course of training in order to re-establish themselves in another niche in the economy without delay. During the last year, it has been reported in a good many countries that this is exactly what has happened. Special efforts are being made to induce a reversal of this trend. In the *United States*, conferences have been held to uncover apprenticeship opportunities for war veterans and to find ways of encouraging these men to take full advantage of them. *Great Britain*, *Canada*, *New Zealand* and *Australia* have also taken steps to inform men of trade training for work with a more permanent future and to discourage them from entering temporary work after a short period of intensive training; apprenticeship and trade training schemes have been re-examined from this point of view. In the liberated countries as well, this problem is serious. Both *France* and *Belgium* are encouraging unemployed workers and repatriated persons to obtain as comprehensive training as can be offered.

One of the most effective forms of persuasion is, of course, the grant of remuneration during training at a high enough level so

that it constitutes an inducement to undergo and continue longer courses of training, and is sufficient for the worker and his family to maintain a reasonable standard of life. *New Zealand's* rehabilitation trade training scheme is generous in this respect; and several countries have made improvements in their systems of payment to persons during training with regard to the immediate post-war situation. In the *United States*, the Servicemen's Readjustment Act of 1944 provides for a year's free vocational training (with extensions of this period authorised in certain conditions) with living allowances and dependants' allowances paid during training. The *British White Paper on Employment Policy* states the Government's policy in this matter as follows: "The allowances granted to the trainees will be completely divorced from payment of unemployment benefit . . . [and] will be fixed on a higher scale than unemployment benefit, subject to the principle that they should not be so high as to provide a higher income than the general run of wages likely to be received by trainees in their first subsequent employment". Present allowances are in fact fixed on this principle. In *France*, persons undergoing training receive the minimum salary of an unskilled worker to start with, and this is increased gradually during the period of training.

Most of the facilities for training brought into play for meeting war demands will be needed during the transition period. In particular, however, it will be necessary to continue the expansion of systematic methods of in-plant training. Experience has shown that this form of training is perhaps the best that can be offered for many occupations; and employers and workers in most countries believe it has many advantages over any kind of institutional training for many categories of workers. This is not only because in-plant training methods are specially well adapted to mass production and other techniques of modern industry, but also for several other reasons connected with the transition. In the first place, a great many countries will be faced with shortages of the tools, materials and parts, equipment and instructional staff needed for training in many occupations; in-plant training economies, as a rule, on all of these components. Secondly, the persons who will be seeking training or retraining during the transition period will include large numbers of adults with previous job experience who will feel more at home and more usefully employed if they receive training in a plant than in a school or special centre. Thirdly, in-plant training is not confined to the training of beginning workers, but is one of the most important methods of upgrading workers to more highly skilled work and thus helps to reconstitute the skilled labour force needed in the

transition period by many industries. Finally, in-plant training and upgrading are the essence of systematic plant promotion programmes. To a very large extent, the organisation of these facilities is a matter for the management, in co-operation with union representatives; but in a few countries, Governments, in order to encourage employers to embark on or to expand such facilities, have agreed to subsidise in-plant training, particularly in respect of the wages paid to trainees.

These points do not diminish the importance of all other forms of training in the transition period. Each type of training programme used during the war will probably have its uses in the transition period, though the content and methods of the training may require substantial modification. Others may need to be developed. For example, particular care is being given in a number of countries to the development of suitable training facilities for disabled persons. Projects to meet the special needs of displaced women war workers are under consideration in several countries. Special courses for the training of plant foremen and job instructors are already being developed in most of the countries of the *British Commonwealth of Nations*, the *United States* and *France*. *Canada* has made arrangements for training social welfare aids. A good many countries have mapped out extensive plans for enabling returned veterans and deportees and others on war service to secure higher education and technical training. Others (*Australia*, *India*, *New Zealand*, *Union of South Africa*, and certain *Latin American* countries, in particular) are considering agricultural training schemes.

At a time of rapid change in the volume and character of labour requirements in industry, it is particularly important that the selection of trainees should be carried out with care. In *France*, this question had been given a good deal of attention before the war and emphasis is now being placed on it once more. Special selection centres are to be set up to assist in determining which course of training would be most suitable for the worker concerned; over a period of 10 days or so, he can be given an introduction to, and tested for, the various kinds of training which he could take, before determining that which he will take. Essentially, this is in the nature of vocational guidance, but it is also an aspect of the training of adult workers that has frequently been overlooked.

It is also important, as the Conference pointed out at its 1944 Session, that in the transition period training and retraining programmes should be "geared to the post-war needs of the economy". To be so integrated, they have to be based on as much

factual information as possible in regard to the general and local trend of employment and the different skill requirements of the various industries. Otherwise, their chief purpose of equipping workers to fill the available jobs becomes theoretical, and they fall into the unenviable position of encouraging aimless occupational mobility, a disservice to the workers concerned and to society as a whole. One aspect of this question which deserves attention is the development of training programmes in relation to the new needs arising from efforts now being made to plan industrial distribution, to decentralise industry, and to foster new industries.

If, therefore, the training facilities are to serve their purpose of adapting the skills and abilities of the workers to the job opportunities and requirements of the post-war period, they must work as a co-ordinated whole, under effective public supervision. They should be closely associated with guidance work and with the employment planning and placement work of the employment service. Guidance can help ensure sound principles of selection of trainees, while the employment service is in a position to prevent mal-direction or under-use of training facilities by supervising or advising on the types of training given and the number of trainees to be admitted to each type, and by placing the trainees in useful employment on completion of their course. These are administrative prerequisites for the successful functioning of the training programme in the transition period. Otherwise, a "bits-and-pieces" programme may result, with too few people trained in some lines of activity and too many in others, with no care over the selection of trainees, and with no practical possibilities of placement at the end of training.

A further prerequisite is close and systematic co-operation with employers and workers. There is no need to emphasise the value of this co-operation in working out policy, standards and methods of training, in ensuring acceptance and placement of trainees after their training has been finished, and in preventing men and women from being used as a source of cheap labour. Moreover, employers' and workers' representatives can provide full knowledge of skill requirements. This is important everywhere, and both trade unions and employers attach the greatest significance to it. It is of particular importance in countries where there has been a mushroom growth of war training facilities or where there is a continuing need for the expansion of these facilities. In *India*, the Member for Labour of the Viceroy's Executive Council has particularly stressed the workers' conviction that it is "only by tripartite co-operation that a technical training scheme on a sound basis can be developed". The Confederation of Latin American Workers

(C.T.A.L.) has also laid emphasis on the need for developing training on the basis of Government-labour-management co-operation.

The practical goal of training and retraining programmes is the placement of the trainees in productive work. The only satisfactory method of ensuring that this objective is reached is by action to keep the general level of employment high. Otherwise, training programmes can operate only within narrow limits and will not benefit those who need training most in order to secure congenial and secure employment. It is also true, however, that it is unsound policy to curtail training programmes if employment should temporarily fall below the accepted full employment level. This is the time to expand training, not only to prevent any deterioration of skill or working capacity, but to improve the qualifications of the workers who are temporarily unemployed and to make it possible for them to move into the jobs which will become available through the efforts being made in other fields to raise the level of employment. The timing of the expansion or contraction of the training programme is extremely important. The training has to be carried out in advance of the need for the skills being acquired and at the time when the workers need the training—that is, when they lose one job and cannot find another in the immediate future.

Where there is co-ordinated public and private planning for full employment, there need be no conflict of interest in planning the scope and timing of the training programme in relation to the needs of the economy and the human needs of the workers. On the contrary, a well-planned training and retraining programme, worked out in close co-operation with employers' and workers' organisations and geared to post-war industrial requirements, is an indispensable aspect of employment policy in all countries during the transition period. Their industrial future and the standard of living of their people will depend in great measure on the extent to which the wartime skills of ex-service personnel and displaced workers are converted and used to the full in peacetime production and on the extent to which dislocations of employment during the transition are used to develop skill among those who have not yet had an opportunity to acquire the means of building their peacetime work careers.

#### GEOGRAPHICAL MOBILITY

While training and retraining are an essential means of making it possible for workers to move from one occupation to another as required, it is equally important to ensure that they are able to move to areas where there are jobs which they are qualified

to fill. In other words, steps to encourage necessary occupational mobility must be complemented by steps to encourage necessary geographical mobility. The one without the other would be insufficient at any time but particularly in the transition to peace, since war needs have caused vast changes in the distribution of industry and the location of the working population in almost all countries. Moreover, adequate measures to promote geographical mobility may make it unnecessary for a good many workers to change their occupations, while satisfactory training to make possible occupational mobility may make it unnecessary for workers to move from one place to another.

In encouraging geographical mobility, the emphasis is on whether or not it is *necessary*. War experience of the transfer of human beings from one place of work to another has shown that the movement of large numbers of people to other areas is usually difficult and upsetting for the workers and their families and raises a host of individual and social problems. Moreover, the transfer of workers may have to be limited wherever possible during the transition period, not only because of its social undesirability, but also because of its impracticability owing to housing congestion and shortages of other amenities (though it is also true that the population of some overcrowded war communities may have to be reduced for the same reasons).

The war has also shown how much can be done to plan industrial distribution so that work is brought to the people who can do it rather than that the people have to move to other areas. The Conference, at Philadelphia, attached special significance to action to limit the need for geographical mobility by planning industrial distribution with full regard to the employment situation. "With a view to avoiding the need for excessive movements of workers from one area to another and preventing localised unemployment in particular areas", it urged each Government, in co-operation with employers' and workers' organisations, to formulate "a positive policy in regard to the location of industry and the diversification of economic activity".

Substantial progress has been made during the last year in acceptance of this principle and to some extent in its application. The Government of *New Zealand*, through the Organisation of National Development, is fostering the expansion of secondary industries away from congested centres of population in order to ensure balanced activity and full use of local supplies of manpower, raw materials and manufacturing equipment. Within the Organisation, a Decentralisation Subcommittee of the Industrial Development Committee has been set up to examine the problems

associated with the setting up of certain industries in the smaller centres. In *Australia*, the Government's policy of decentralising war factories so as to absorb the maximum labour potential of the various areas and to take advantage of strategic positions has laid the foundation for its post-war policy of spreading out secondary industries in rural areas, on the basis of surveys of their resources.<sup>1</sup> The Commonwealth Government has assisted firms to open branches in country towns by supporting their applications for overseas procurement of machinery. The Secondary Industries Commission has been investigating ways of decentralising industry in connection with prospective post-war supplies of trained labour, materials and equipment. The Prime Minister has strongly urged the adoption of a planned policy for the location of economic activity as an essential part of full employment and industrial development and, for this purpose, the grant to the Commonwealth of power to resist a drift of industry to the capital cities. The States are reported to be generally friendly to the idea that the Commonwealth, because of its responsibility for tariffs and trade commitments, has an over-all interest in decentralisation planning, and are in agreement with the Commonwealth on the advantages of enlightened decentralisation in terms of better living conditions and more varied employment for larger numbers of people. In the *Union of South Africa*, efforts are being made to encourage planned regional industrial development; one of the prerequisites for sound development is said to be a State-sponsored financial institution to help in the planning and development of regional resources.

The *British Parliament* is considering a Distribution of Industry Bill, the specific purposes of which are to stimulate industrial and social development of areas where there is a special danger of unemployment and to prevent further industrial development in areas where this is considered to be necessary. Among other things, the Bill empowers the Board of Trade to acquire land in development areas (the industrial regions which include the former distressed areas), to prepare the land for use and also to erect factories which can be leased to industrialists. Government loans may be made to non-profit trading or industrial estate companies to provide further premises, and loans may also be made to improve basic services such as housing, transport and power. Industrialists who are willing to start an undertaking approved by the Board of Trade as desirable for a development area may receive financial

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<sup>1</sup> During the war, 125 clothing and textile factories had been set up in towns in rural areas under the decentralisation plan; munition factories, food-processing plants and light engineering factories had also been set up in country areas.

concessions. The Board of Trade may purchase derelict land in order to restore it and improve the amenities of the neighbourhood. In the rest of the country (that is, outside development areas), the Board must be notified of all proposals to erect an industrial building with a floor space of 3,000 square feet or more (which is a new industrial unit) and may prohibit the erection or extension of such buildings in any area where the proposed project would be detrimental to well-balanced industrial distribution.<sup>1</sup> Any planning of the location of industrial activity must be based on sound information; and the British Government has developed a most useful series of statistical tools for measuring the many factors entering into the choice of location, centralising them in the Location of Industry Planning Room, now under the Board of Trade.<sup>2</sup>

In the *United States*, a number of studies of changes of industrial distribution during the war, and their implications for the transition period, have been made. The problems involved are receiving particular attention in post-war planning, at the federal and State levels, but no specific policy for the location of industry has yet been announced.<sup>3</sup>

In *Canada*, the White Paper on *Employment and Income* stresses the principle of disposing of Government-owned facilities with full consideration of the advantages of industry in smaller towns and centres and of the needs of areas in which there was little industrialisation before the war. This principle has been accepted by the Department of Reconstruction.

The provisional Governments of *France* and *Belgium* attach importance to a planned location of industrial activity in the reconstruction period, partly as a means of easing the immediate strain on transport, housing, feeding and other facilities and of ensuring full use of local labour supplies, and partly as a desirable

<sup>1</sup> The Bill has since been adopted with the omission of the clause permitting the Board of Trade to prohibit the erection or extension of industrial building in congested areas.

<sup>2</sup> The Room includes a variety of maps, charts and card indices, showing the existing industrial and labour position of each area of the country. Its original purpose was to facilitate the placing of war industrial activity.

<sup>3</sup> A recent study made in the Department of Commerce came to the conclusion that on the whole the regional concentration of industry was about the same as before the war but that within the State and metropolitan areas there had been a vast movement to new occupations, new industries and new places of work. The need to facilitate the mobility of labour would be "of major importance in many centres". In general, however, "the problems of post-war re-employment cannot be solved by moving people to other parts of the country where job opportunities await them". Because the expansion had occurred in almost all areas, no parts of the country could absorb excess workers from war production centres "until the national output of non-war goods and services substantially exceeds the pre-war level".

economic and social policy for the future. Circumstances have made it difficult, however, for them to develop practical plans to give effect to this principle.

The formulation of national plans for the distribution of industrial activity is a most significant feature of employment policy. These plans can help to make it unnecessary for people to move to other areas in search of job opportunities. On the other hand, for many economic and strategic reasons, job opportunities cannot always be made available so as to correspond to the existing distribution of the working population. This will be particularly true during the transition period, when lop-sided war developments in the geographical location of the labour force have to be corrected in the future interests of balanced industrial distribution. Hence, a considerable transfer of workers to other areas will have to take place during the change-over to peace, especially in countries where there have been extensive transfers of the working population as a result of war conditions.

Some movement to employment in other areas has already begun in countries where military or industrial demobilisation and repatriation have started. Just as in the period of war preparations, a good deal of migration takes place as a spontaneous individual movement of workers to find new, better or more secure jobs. But, just as in the case of changes of occupation, it would be impractical to rely on an automatic and orderly relocation of workers in areas with the most suitable job opportunities for them. The problems for the transition period are, first, to ensure that necessary mobility is not hindered, second, that the movement to new areas is related to the absorptive capacity of these areas, and thirdly, that it takes place in an orderly manner. The task of the Governments is therefore to determine how much mobility is necessary, to facilitate the movement of workers within those limits, and to discourage haphazard and aimless migration in search of employment.

The determination of the limits within which mobility ought to be encouraged is a part of general production and employment planning outside the scope of this chapter. The provision of assistance to workers to transfer to other areas, however, is a function of the machinery of employment organisation. Two kinds of assistance are particularly necessary—informational and financial.

Before seeking work in another area, a worker wants to know as accurately as possible where his chances of finding suitable work are the best. The employment service is directly responsible for providing this information. Through its normal employment data

and clearance arrangements, it has all the facts the worker needs on which to base his plans. Moreover, by giving wide publicity to the facts, in co-operation with employers' and workers' organisations, the employment service can prevent unplanned migration, harmful to all, and particularly so to the workers concerned and their families.

Once a worker knows where to seek work, however, he may be very reluctant to undertake a move for personal and financial reasons. Often the personal objections can be overcome by adequate information concerning living conditions (housing, schools for the children, etc.) and working conditions (including wages, hours, transfer of union membership and of social security rights, etc.). This is a field in which trade unions can provide much useful assistance.

The financial difficulties are more concrete and can more easily be solved. They can be overcome by public advances or grants given as a right to a worker who has lost his employment through no fault of his own and whose own interest and the public interest are both served by his moving to another area with more favourable employment prospects. Before the war, relatively few countries had made systematic arrangements for helping workers to pay transport costs not only for themselves but also for their families and to cover the numerous incidental costs involved in moving and in settling in a new place of work. It was generally considered that the worker should bear these expenses himself or that the matter should be handled through collective agreements. During the war, the conception of public responsibility in this field widened along with the manpower measures which required, directly or indirectly, transference of labour to essential employment in other areas.

It is now recognised that the need for planned geographical redistribution of the labour force will be especially acute during the transition period, that action to facilitate this redistribution is a vital part of employment organisation, and that, even though war measures compelling transfers are abolished or modified, the public will continue to have a direct interest in facilitating the redistribution of workers by removing obstacles to their transference. It is also widely recognised that individual workers who have responded to the emergency by moving to useful work in other areas, often at considerable personal inconvenience, ought not to be penalised if it becomes necessary for them to move once again during the change-over to peace. During the last year, several countries (including *Canada* and *Great Britain*) have modified their wartime assistance schemes for transferred workers

to take account of transition period needs, while the President of the *United States*, in his last budget message (January 1945), reiterated his plea for Congress to authorise travel assistance as a means of overcoming localised pockets of unemployment and of generally facilitating reconversion.

In European countries, liberation brought far more serious employment dislocations to some areas than to others. In *France*, for example, heavy unemployment struck the most industrialised areas (the Paris region particularly) while other areas were short of labour (*Normandy*, for instance). The difficulties in industrial areas were expected to be largely of a temporary nature and therefore there was considerable advantage in holding together the labour force of the undertakings affected by lack of work. Yet there was, at the same time, an urgent need for workers to do essential clearance, construction, agricultural and other work in areas where no labour was available. In the face of this difficult situation, the Government has steered an interesting course, aimed at inducing the temporary transfer of workers to other regions according to requirements and yet holding their permanent jobs in their home areas open for them once work is again available. Special compensation is paid to workers on short-time or laid off but whose contracts are not cancelled, and in return, they must agree to transfer, if requested, for a period of not more than 6 months to another area to perform necessary reconstruction work. If they are transferred, they receive a bonus on departure, their travelling expenses and a daily transfer allowance (paid to their families), and special arrangements are made for paid holidays for them.

These developments are in conformity with the Recommendation of the 1944 Session of the Conference, which urged, in the first place, that, with a view to facilitating the necessary mobility of labour, "the employment service should take action to overcome the obstacles to transfers from one area to another and to assist the movement of workers to areas needing labour, thereby helping to bring together available skills and available employment opportunities and thus preventing unemployment". Specifically, it suggested two methods of action to overcome financial troubles. First, where a worker is transferred from one area to another on the initiative or with the consent of the employment service, arrangements should be made to grant travelling allowances and to help him meet initial expenses in the new place of work, by the grant or advance of a specified amount fixed according to the circumstances. Second, where a temporary transfer made through the employment service involves the separation of

the head of the household from his family, arrangements should be made to grant an appropriate separation allowance to cover the added costs of maintaining double living quarters. These principles give the employment service the responsibility of arranging or approving inter-area transfers in which the grant of public funds is involved, and therefore place the service in a position to act as an agency for an orderly redistribution of manpower among the various areas, according to the new employment opportunities of the transition period.

More stubborn financial problems result from inter-area variations in the cost of living, and particularly from housing difficulties. The *Swedish State Employment Market Commission* reported in 1944, for instance, that geographical mobility in the labour force was limited by the fact that industrial workers, especially in areas dominated by a particular industrial undertaking, had often acquired houses of their own with the assistance of the public authorities or the industrial undertaking in question, and that the sale of these houses, if they left the district, might entail a loss. Mobility was also limited where an employer rented dwellings to his workers at an exceptionally low rent. Such problems or similar ones arise in many countries. The consequent reluctance to take up employment in another district cannot easily be overcome. But it can be greatly reduced by co-ordinated action by the employment service and the public authorities charged with planning housing and other amenities, aimed at ensuring that planning in these fields is in conformity with long-term employment prospects and that living costs and wages do not vary unnecessarily in such manner as to hinder desirable transference of labour from one district to another.

The existence of programmes for assisting workers to move from one area to another to meet changed industrial requirements will be of the greatest value in ensuring the maintenance of the necessary mobility among workers during the transition period. These plans are equally important because they make it possible to safeguard the workers concerned against unnecessary hardship when they are forced by circumstances beyond their control to seek work in other areas.

#### SPECIAL CATEGORIES OF WORKERS

The basic employment problems of all workers are the same. Nevertheless, some categories of workers face special difficulties during the transition period, for one reason or another, and require special assistance to overcome them. These categories include

young workers, women, disabled workers, older workers, and a number of minority groups who, in the absence of special safeguards, are likely to encounter job discriminations.

### *Young Workers*

A good many of the problems of young workers during the transition period have been covered in a separate Report prepared for this session of the Conference.<sup>1</sup> Here, therefore, it is sufficient to recall that the last session, in the Employment (Transition from War to Peace) Recommendation, 1944, adopted the principle that special efforts should be made during the transition period "to provide the widest possible opportunities for acquiring skill for juveniles and young workers who were unable, because of the war, to undertake or complete their training" and "to improve the education and health supervision of young persons". The methods suggested by the Conference to give effect to this principle include raising the school-leaving age, student aid programmes, public vocational guidance and pre-employment medical examinations, improvements in apprenticeship to take account of war conditions, and systematic in-plant training programmes.

It was clearly recognised that youth in the liberated countries of Europe would need immediate assistance. The Conference, therefore, urged several policies of special application in these countries: that particular attention should be given to the health supervision of young persons, from the time of their admission to employment through the period of adjustment to working life, and that where necessary measures of physical rehabilitation should be adopted. Realising that outside aid would be needed for this purpose, it urged Member States to co-operate, when requested, in providing for the training of medical and nursing staff, and the loan of experienced doctors, surgeons, nursing personnel and appropriate equipment. The provisional Governments of both *France* and *Belgium* have been giving special attention to youth employment problems. A number of the reconstituted administrative departments have set in motion specialised youth sections, which are preoccupied above all with making arrangements for the health care, guidance, training and re-employment of the millions of young persons whose work careers have been interrupted by war.

Perhaps the most significant development in youth employment policy in the various countries of the world is the concentration of effort on widening the opportunities of young workers to learn a skilled trade. The continuing demand for skilled labour, especially

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<sup>1</sup> Report III: *Welfare of Children and Young Workers*.

in rapidly industrialising countries, and the lack of skilled workers available for certain basic industries, the adverse effects of the war on the work preparation of young workers, and the general desire to see to it that young veterans and deportees can obtain well-rounded training after the war, have combined to produce a considerable expansion of trade training facilities for young workers. The field in which progress has been the most substantial, and which has a close relation with employment organisation in general during the transition period, is that of apprenticeship. Apprenticeship has been developed or overhauled and improved in many countries, and has been linked more closely with other forms of systematic training for young workers.<sup>1</sup> The various facilities available for youth training have had to be re-examined with a view to ensuring their suitability for meeting transition period economic requirements as well as the needs of the young workers and servicemen whose vocational preparation was interfered with by the war. In most countries this has had important results, which are only now beginning to emerge. For example, in *France*, critical re-examination of youth-training facilities led the authorities to the conclusion that the State should assume more of the responsibility for giving trade training in order to ensure that the training was broad and complete and in harmony with the national, social and economic interest, rather than geared chiefly

<sup>1</sup> In Great Britain, arrangements have been made to encourage young workers returning from the forces or other war service to enter apprenticeship. The United States is expanding apprenticeship as a part of transition period employment policy to meet the needs of young war workers and war veterans. Canada has set in motion a subsidised Dominion-Provincial scheme of trade apprenticeship training for young war veterans and civilians and is emphasising the importance for the welfare of industry that a sufficient number of young people should be given trade training of various sorts after the war. The Union of South Africa adopted new legislation in 1944, which improves apprenticeship machinery and provides added safeguards for minors other than apprentices employed in industry. In New Zealand, the Commission appointed by the Government to investigate apprenticeship and related matters at the end of 1944 issued its report, which is based on the principle that apprenticeship is the main method of educating and training recruits for the skilled trades, and recommends a number of substantial reforms in the existing apprenticeship arrangements. Queensland (Australia) adopted revised apprenticeship legislation and several other Australian States took a keen interest in the subject during the year. In France, centres for training young workers for skilled trades have already been opened; they are to be doubled in number this year, and tripled as soon as possible. Luxembourg is reconsidering its whole apprenticeship system, and examining problems involved in such matters as the grant of certificates to young apprentices whose training was completed during the occupation. Sweden has been conducting a thorough investigation into existing methods of training, with a view to widening the vocational preparation of young workers. The Argentine Republic adopted regulations concerning apprenticeship, as a means of equipping the country with systematic arrangements for improving the skills of the labour force owing to the increased industrial development of the country. Finally, several of the British Dependencies are considering more systematic training (*Jamaica* is the first to adopt formal apprenticeship regulations, and *Nigeria* is taking action along the same general lines).

to the specific needs of an individual establishment. In other countries, reappraisal of facilities has led to efforts to co-ordinate apprenticeship and other forms of training more closely, and in particular to ensure that young workers who are not apprentices have the same protection as apprentices and have an opportunity to acquire a more rounded knowledge of industrial operations than has been the case in the past.

There have been several other constructive developments in youth employment policy during the year, particularly in specialised vocational guidance and placement facilities, but the expansion of opportunities for young workers to learn a skilled trade—that is, the development of apprenticeship and other related forms of systematic training—seems to overshadow the rest. This type of action is of special value in the transition period. If given a chance, many young workers and veterans will be able to acquire a broad background of technical knowledge and equip themselves for useful work careers with some future and security. They will therefore be less likely to be struck by unemployment and, if they do happen to become unemployed, they will have a greater degree of occupational mobility and be more likely to be able to find new work. Above all, well-trained young workers are indispensable to the successful industrial future of any country. Their skill enhances the level of productivity and helps to make possible the expansion of industrial activity on which the raising of living standards depends. This consideration is of special importance in the transition to an expanding peacetime economy.

#### *Women*

Women can hardly be said to constitute a special category of workers, since the general principles of employment organisation should apply to them as to all other workers. During the transition period, however, special action may be needed in most countries to ensure that their redistribution in the peace economy is organised on the principle of complete equality of opportunity for men and women on the basis of their individual merit, skill and experience. This was the principle accepted by the Philadelphia Conference, which suggested in addition that in order to place women on an equal footing and thus to prevent competition for jobs prejudicial to all workers, steps should be taken to establish the principle of wage rates based on job content, without regard to sex.

During the last year, several countries have taken limited action to safeguard women workers against unfair discrimination in the transition period. In consultation with interested groups,

the *United States* Women's Bureau mapped out a "reconversion blueprint" containing a series of specific policies to be followed in facilitating the redistribution of women in the change-over to peace. It has also been holding representative conferences and making a series of useful studies on the prospects of women workers in various occupations after the war, and the conditions of employment in traditionally women-employing industries. The Women's Advisory Committee to the War Manpower Commission has issued recommendations to ensure a fair and orderly demobilisation of women workers in the transition period, and has pointed out that "to take it for granted that women do not need to work and to use this assumption as a basis for dismissal is no less unfair than if the same assumption were used as a basis for dismissal of men". In 1944, *New York State* adopted a law providing that no discrimination will be allowed in rates of pay because of sex. *Great Britain* has appointed a Royal Commission to consider the matter of equal pay for equal work, and the Commission is now at work. In *France*, the provisional Government has taken action to remedy the wage discriminations introduced by the Vichy authorities; among other things, it promulgated in August 1944 an Order which contains an article stipulating that women employed on comparable work and with an output equal to that of men shall receive equal rates of wages. In *Australia*, the fact that women dilutees doing men's work receive equal wages for equal work has led to an authorisation to the Commonwealth Court to raise the level of wages of other women working in war industries. In *Sweden*, the Chief Woman Factory Inspector, commenting on the fact that the end of the war would mean displacement of women, particularly those replacing men in the forces and those in iron foundries, said that it was fortunate that the principle of equal pay was generally supported, thereby eliminating all risk of employers exploiting a cheap supply of labour.<sup>1</sup> Several countries are taking steps to raise the status and prestige of industries which traditionally employ large numbers of women, as an important method of encouraging the post-war re-employment of women in these industries. Systematic arrangements for better organisation of domestic service are being made in a number of countries. Finally, the trade union membership of women workers continues to increase—a factor which will play a large part in determining the full acceptance of women as work partners on the basis of their own merits. In the *United States*, for example, the number of

<sup>1</sup> A Gallup Poll enquiry in Sweden in early 1945 revealed that nearly three fourths of the persons interrogated upheld the principle of equal pay, with men approving the principle nearly as widely as women themselves.

women union members has increased from 800,000 to 3,000,000 during the war years, while in *Great Britain*, about 1,870,000 women were trade unionists in 1943, compared with only 730,000 in 1939.

It is still too soon to tell how lasting will be the changes in the employment of women brought by the war. The transition period is of great significance to the future of working women, however, because the policies followed will have a far-reaching influence on their long-term post-war opportunities. Aside from the welfare of women themselves, it is important for the re-employment of all workers that the redistribution of women should be organised within the frame of the general principles accepted for other workers, with special action confined to the provision of safeguards needed to prevent women from bearing more than their share of the transitional difficulties.

#### *Disabled Persons*

The 1944 Session of the Conference adopted a series of policies for widening employment opportunities for disabled persons, whatever the origin of their disabilities. The International Labour Office is now engaged in the preparation of a comparative survey of national plans for their training and re-employment. These questions are not covered here, therefore, except to emphasise the importance of immediate action to use the transition period to provide disabled veterans and workers with as wide opportunities as possible to obtain suitable employment and training, so that they may make their full contribution in the post-war world.

#### *Other Special Categories*

A good many other groups of workers within the various nations may meet unfair employment discrimination in the transition period because of their age, race, religion, colour, creed or national origin. The war has brought most of these workers a chance to do useful work, suited to their qualifications. Their position in economic life remains somewhat precarious, however. They are still in danger of being singled out for further discrimination if, in the transition period, job opportunities contract appreciably in any occupation, area or country.

The chief problem for the transition period is to consolidate wartime gains in acceptance of workers belonging to these groups according to their own qualifications as workers and to prevent any outbreak of discrimination not related to ability and job performance.

Recent developments in one country along these lines may be mentioned. In the *United States*, *New York State* in March 1945 adopted a law aimed at preventing and eliminating practices of discrimination in employment against persons because of race, creed, colour or national origin, and setting up the administrative machinery needed to outlaw discriminatory practices; *Indiana* and *New Jersey* adopted somewhat less comprehensive anti-discrimination legislation; there has been a multiplication of both federal and State legislative proposals for prohibiting discrimination; and organised labour has set up machinery to combat unfair discrimination.

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The general policy in respect of all of these special categories of workers in the transition period is straightforward. The only reasonable principle which can be followed is that the redistribution of workers in the peace economy must be organised on the basis of equality of treatment. This principle has been proven during the war to be economically sound and socially wise. There is no reason to believe that it would be less so in the transition to peace.

The root cause of unfair employment discrimination has always been the lack of sufficient job opportunities. The chief method of overcoming them must therefore be action to maintain high levels of employment and to improve the general organisation of employment so that those seeking work may find it and so that the available jobs may be satisfactorily filled. Remnants of prejudice can be overcome by wise educational campaigns, aimed at ensuring that principles of fair employment practice are formulated, accepted and applied by Governments, employers and workers alike, and that full employment is defined broadly enough to mean full employment for all who wish to work, whatever their age, sex, colour, race, religion, creed, or national origin.

#### EMPLOYMENT REGULARISATION

The organisation of employment in the transition period necessarily involves the regularisation of employment in the various industries and occupations. "Full employment" could not but have an ironic sound to workers who are laid off from time to time and lose their source of income. Regular employment, involving job security and a steady flow of wages, is an extremely important part of employment organisation.

Before the war, this was a somewhat neglected field of policy. Much has been done during the war, however, to regularise employment in industries essential for war purposes. A good many countries introduced special schemes for the port transport, construction and mining industries. A few countries went still further and, as a part of their war manpower regulations, extended the principle of guaranteed work and income over a wide range of essential industries. Wartime production planning made it possible to eliminate many of the factors which had caused temporary lay-offs and seasonal unemployment before the war, and war needs for full use of manpower made it essential to eliminate wasteful employment practices and to keep workers regularly employed for the full working year.

The special schemes for dock labour and the building trades and the general arrangements made in other essential industries covered by employment controls were all on a *quid pro quo* basis. In return for regular employment and income, the workers agreed to accept certain obligations, particularly in regard to efficient job performance and transference within the plant (or even within the occupation or industry) during any slack periods on their own jobs. Moreover, the schemes were worked out on the basis of co-operation between a Government agency and the employers' and workers' organisations concerned.

The success with which the wartime schemes have operated has led a good many countries to consider plans to regularise industrial operations in the post-war period. There is an increasing demand from the trade unions for the income security dependent on steady employment, and a growing unwillingness among many employers and the general public to accept as inevitable the waste of productive power and manpower entailed by irregular industrial operations.

At its 1944 Session, the Conference urged that measures should be taken in industries and occupations in which operations are irregular to regularise employment and thus to achieve full use of the capacities of the workers. It considered, in particular, that schemes adopted or extended during the war for this purpose should not be abandoned but should be maintained and adapted to peacetime conditions in consultation with the employers' and workers' organisations concerned.

There are two inter-related problems: first, to ensure that total employment within an industry or occupation is kept at a level at which requirements are met, but at which there is not a constant reserve of unemployed manpower; and second, to plan the flow of production so as to employ fully the workers in this fixed labour

force on a steady, year-round basis. These problems (which cannot be analysed here) will be greatly simplified if the present trend towards greater and more co-ordinated planning of production and employment prevails. Employers and workers within each industry can do much to plan the industry's labour force in terms of output, and to remove obstacles to a steady programme of production. Government departments can help in a great many ways, by clarifying their own requirements, by lending assistance in overcoming difficulties in the supply of materials or parts, and, more broadly, by action aimed at maintaining a high general level of employment. Campaigns of public education can also help to change buying habits so as to eliminate unnecessary seasonal fluctuations in industry. Once permanent requirements for fully employed workers have been estimated, it is possible to plan to meet fluctuations which cannot possibly be avoided. But the stabilisation of the full-time labour force is the prior problem. A good many countries have taken initial steps to try to foster steady employment conditions.

In *Australia*, for example, plans are being made to make employment in a wide range of industries more stable by careful planning of post-war programmes in the major industries. Shipbuilding is a case in point, where advance planning is expected to facilitate employment stabilisation by preventing a drift of engineers and skilled workers away from the industry. *New Zealand* is working along the same general lines; the rise and fall of activity in farming, food-processing and related industries, constitutes one of the country's greatest labour problems. Both of these countries are making plans to continue some form of employment stabilisation for waterfront workers.

In *Great Britain*, the wartime schemes for decasualising dock labour and building operations are already being adapted to meet post-war needs in these industries. The then Minister of Labour and National Service placed great emphasis on the need to regularise employment throughout industry, by means of the special war schemes and the general principles of the Essential Work Orders. In a debate on employment policy in June 1944 he said: "We want to get rid of casualisation of labour. The House knows enough about it and how demoralising it is. The less casualisation there is, the more efficiency you get in industry." Employers' and workers' organisations in the boot and shoe, clothing, furniture and other consumer-goods industries are taking steps, in co-operation with the Board of Trade and Ministry of Labour, to iron out unnecessary seasonal fluctuations and secure steady employment of their labour force for the full working year.

In *Sweden*, the State Employment Market and Industrial Commissions are co-operating in efforts to eliminate the temporary unemployment and short-time prevalent in several industries as a result of war conditions. In the boot and shoe industry the methods used were a coupling of control of engagement with the allocation of materials to the industry. The Government thus put itself in a position to influence manufacturers not to engage more workers than could be provided with full employment. The materials allocation covered a period of six months so that the manufacturers were able to plan their output in relation to stable employment conditions in their plants. The unions supported these measures despite the fact that they involved the exclusion of a good many regular boot and shoe workers from their trade; they hope that, after the war, when supplies are more plentiful, the volume of labour will continue to be regulated with a view to providing full and regular employment. As a further measure to induce employers to stabilise operations, the workers are also seeking a change from piece work to weekly rates of payment. In the building industry, the Government has been following a policy aimed at eliminating the seasonal nature of operations, and a motion has been submitted to the Riksdag urging an enquiry into the remedies for seasonal unemployment among sawmill workers.

In the *United States*, the Congress of Industrial Organizations has taken the lead in the drive for job security through guaranteed work on a guaranteed annual wage (an idea which originated among employers). The principle has been accepted in a few union contracts, but the Bureau of Labor Statistics, in a report issued early in 1945, revealed that, of 8,000,000 workers whose contracts were analysed, only 42,500 were protected by annual wage schemes (most of those covered being employed in relatively small concerns engaged in consumer goods, service and distribution industries). The principle of guaranteed employment has been accepted by the President of the Chamber of Commerce, who has urged all business men to explore the means of regularising their operations and providing steadier jobs for the workers. The last National Conference on Labor Legislation, meeting in Washington towards the end of 1944, also endorsed the principle of a guaranteed annual wage in order to stabilise employment. Finally, in March 1945, President Roosevelt, acting on the recommendation of the War Labor Board, instructed the tripartite advisory board of the Office of War Mobilization and Reconversion to investigate the guaranteed annual wage in relation to long-term and transition-period employment problems. This study is now under way, and

will cover employment regularisation, since few employers can guarantee an annual wage unless there is year-round production at or near plant capacity.

The regularisation of employment and income is one of the major demands of workers in many countries. It is at the same time a matter of concern to employers and Governments alike, because it has a direct effect on the efficient working of the economy and the standard of living of the people as a whole. Indeed, the search for continuity of employment is, as President Roosevelt said, "perhaps the most vital economic and social objective of our time".

#### THE EMPLOYMENT SERVICE

The development of an integrated system of employment organisation able to aid each discharged war veteran and worker in finding his way into productive employment requires the existence of a strong and active employment service, operating in close collaboration with employers' and workers' organisations and with other Government agencies. This is the central administrative machinery for the human side of reconversion.

There is no need here to enlarge upon the importance of effective machinery for promoting employment opportunities and facilitating occupational adjustment in the transition period. The 1944 Session of the Conference appreciated to the full the immediate long-term importance of a well-developed employment service, capable of assuming heavy responsibilities, and adopted a special Recommendation (Employment Service Recommendation, 1944) calling attention to the permanent value of this service and outlining its post-war functions. Noting that a new and broader definition of the responsibilities, functions and methods of operation of the employment service was needed to meet the needs of the transition period, and more permanently to apply long-term full employment policy, the Conference urged that the essential duty of the employment service should be "to ensure, in co-operation with other public and private bodies concerned, the best possible organisation of industrial, agricultural and other employment as an integral part of the national programme for the full use of resources". It recommended that steps be taken to strengthen the employment service. Specifically, it urged that the employment service be given a wide range of responsibilities, including the assembly of many kinds of information, assistance in determining the content of training and retraining courses, the development of methods of facilitating the transfer of workers from one occupation or area to another, distribution of the workers

satisfactorily within the various areas and occupations, and aid in planning the location of industry, public works, housing projects and other social and economic measures. In view of the broad scope of these functions, it was recommended that the closest co-operation should be established between the employment service and other authorities whose activities affect the employment situation.

Preceding sections of this chapter have indicated the basic part which the employment service can play in national employment planning for the transition period and the extent to which the success of these plans is dependent on the existence of a strong and efficient employment service. It is highly significant, therefore, that countries all over the world have taken steps during the past year to develop and improve the employment service and to equip it to carry its full share of the burden of employment adjustment in the transition.

In countries now grappling with problems of industrialisation, the employment service is recognised as an indispensable agency of recruitment and redistribution; *China* and several *Latin American* countries are therefore engaged in building up an employment service able to assist in solving some of the manpower problems of industrialisation, and in *India* comprehensive plans have been drawn up for a greatly extended network of employment offices. In the *United States*, *Australia*, *Canada* and *New Zealand* the employment service has become the core of machinery for manpower mobilisation for war, and plans are completed or being made to ensure that, in modified form, it remains the administrative nucleus of employment organisation policy during the transition to peace. The employment exchange service in *Great Britain* is one of the most highly developed in the world. In the liberated countries of Europe, many of the provisional Governments—including *France*, *Luxembourg*, *Belgium* and the *Netherlands*—have adopted legislation or regulations reorganising the employment service and re-equipping it for immediate action as a primary agency in reconstruction. This was one of their first official acts and is a striking indication of the importance attaching to a strong, integrated system of public employment offices.

National employment service developments (which cannot be described here, but which the Office is following with special interest) vary considerably from one country to another. The tendency in most countries seems to be towards a more co-ordinated system of employment offices, operating under national supervision and reinforced with stronger regional units, towards a far broader definition of the functions of the service as a whole in the

economy, towards an increased specialisation of informational, guidance and placement work, and towards linking the service more closely with other social and economic planning agencies.

Moreover, it is increasingly emphasised that the employment service, to operate as an integral part of the economy, must have the full co-operation of employers' and workers' organisations in every aspect of its work and must give its full co-operation to these organisations. The importance of consultation of the service with employers and workers was recognised in the Unemployment Convention, 1919, which provided for the establishment of joint advisory bodies. The Employment Service Recommendation, 1944, reiterated the need for these bodies and urged that, in addition, the employment service should, as a matter of principle, co-operate closely with employers' and workers' organisations and that "appropriate machinery should be devised to enable these organisations to assist in the formulation and carrying out of employment policy". Finally, it was recommended that the employment service should co-operate with any joint industry committees set up to facilitate the solution of special industry problems.

To summarise briefly, the components of employment organisation policy in the various countries during the transition period are, first, plans for industrial and military demobilisation aimed at ensuring a rapid and orderly release of the servicemen and women and the workers, including deportees, who will have to be re-employed in peacetime jobs; second, in order to facilitate their re-employment, measures of employment supervision, vocational guidance, training and retraining, transference, and for providing safeguards for special categories of workers; third, steps to regularise employment within industries and occupations; fourth, action to equip the employment service to constitute the central administrative machinery for employment redistribution during the transition period; and finally, policies and procedures for ensuring close co-operation with the representatives of employers' and workers' organisations.

The preceding survey gives only a brief account of national plans based on these elements of policy. Many interesting and suggestive features of these plans have had to be omitted. From the information available, however, it is clear that the last year has been one of considerable progress, particularly in working out the principles to govern the process of labour redistribution during the period of industrial rehabilitation and conversion.

Experience of the last year shows, in particular, that employment organisation in the transition from war to peace must be a common responsibility of Governments, employers and workers. The principle of tripartite co-operation to meet and solve the problems of employment adjustment was stressed in the Recommendations adopted by the last session of the Conference. It has been widely accepted. Yet the persistent undercurrent of criticism of the present stage of preparation for reconversion employment planning derives in no small measure from the feeling of employers and especially of trade unions that the methods by which their full contribution to the common effort can be made have not received sufficient consideration and that as a result they are not in a position to co-operate effectively. Their confidence in Government planning is therefore reduced, and individual employers and workers tend to become somewhat pessimistic and to experience a sense of frustration. It is perhaps significant that the countries which are most advanced in re-employment planning are those which have gone furthest in working out and applying arrangements for the close association of employers and workers in the policy and machinery of employment organisation during the transition period.

The end of the war in Europe has placed these questions in a new perspective and given them new urgency. The principles decided upon at Philadelphia and those incorporated in national plans during the past year must now be applied. Much remains to be done everywhere to translate them from general to specific terms, so that all those who are able and willing to work may find an opportunity to take a full part in the common drive towards freedom from want.

Millions of men and women are already making their own employment transition to the post-war world. Each of them—each worker, each veteran, each deported person—will judge employment organisation policies from a severely practical standpoint. This is a peacetime task which each country should be prepared to meet with the unity of purpose, the energy and the imagination which have characterised the United Nations' response to war conditions.

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## CHAPTER XI

### **INCOME MAINTENANCE DURING SHORT-TERM UNEMPLOYMENT**

The measures suggested in the preceding chapters of this Report should serve to prevent the development of general unemployment during the transition to peace. There is no doubt, however, that there will be a certain amount of short-term unemployment during this period. The problems to be met are too vast and too complex to make it possible to eliminate intervals between jobs for many individual workers. In the liberated countries of Europe large numbers of workers have been, and in many cases still are, either wholly unemployed or on short-time. Even in countries which face less serious obstacles to reconstruction, pockets of unemployment have already occurred and further short-term unemployment is bound to develop as the process of reconversion gains momentum.

Methods of confining temporary unemployment within narrow limits and of reducing the interval between jobs to a minimum have already been discussed. In addition, it is necessary to provide an adequate structure of income protection for discharged war veterans, returned deportees and dismissed workers, until they find work.

Action to provide income security for temporarily unemployed persons is, first of all, a matter of elementary social justice. During transitional unemployment forced upon them by circumstances far beyond their control, individual workers should not be called upon to live on their hard-earned savings. Measures to protect workers and their families from insecurity and to help finance their readjustment during the transition period are essentially a social responsibility of the community as a whole. In the second place, adequate support for family incomes during the transition period is a necessary bulwark of sound economic readjustment, and, by helping to maintain the demand for consumption goods, may prevent temporary unemployment from developing into something more serious.

The last session of the Conference, in discussing the two questions of social security and employment organisation, recognised these needs and adopted a Recommendation concerning income security

and medical care for persons discharged from the armed forces and assimilated services and from war employment.<sup>1</sup> This Recommendation provides, among other things, that except where during war service they have continued to receive a substantial part of their remuneration, demobilised service men and women should receive a special mustering-out grant. It also specifies that they should be treated as insured contributors under unemployment insurance, in respect of whom contributions have been paid for a period equal to their period of service, with any payments that may be necessary being made by the State. Finally, the Recommendation stipulates that where persons discharged from the forces or from war employment (as defined by national laws or regulations) exhaust their right to benefit before suitable employment is offered to them or are not covered by unemployment insurance, "an allowance financed wholly from State funds shall be paid until suitable employment is available; the allowance should, if possible, be paid irrespective of need".

All the major belligerent countries of the United Nations now have a system of war service gratuities. The liberated countries have a difficult problem to solve. They must provide some form of compensation for returned deportees and prisoners and for those who left home to take part in the resistance movement. France, for example, is preparing a measure which provides that returned prisoners shall have the right to receive an amount equal to 6 months of the basic remuneration for their occupational group, during a specified period before mobilisation. Moreover, an Order of 11 May 1945 provides a home-coming allowance of 1,000 francs to repatriated prisoners of war and to those who had been deported for work or for political reasons. Liberation leave is also granted and during this period an allowance, based on the average wage in the district, is payable to repatriated persons, other than specified civil servants and officers and men still under colours, who continue to receive their monthly salaries or pay during their leave. The liberation leave allowance covers 15 days for requisitioned workers and one month for prisoners of war and political deportees. The latter, in addition to these allowances, receive a special indemnity of 5,000 francs and a clothing allowance not exceeding 3,000 francs. Demobilised prisoners of war are entitled to a demobilisation benefit of 1,000 francs while awaiting the liquidation of their pay.

Unemployment insurance schemes provide the most effective protection for workers, including veterans, who undergo short

<sup>1</sup> Social Security (Armed Forces) Recommendation, 1944; see I.L.O.: *Official Bulletin*, Vol. XXVI, No. 1, 1 June 1944, p. 26.

periods of unemployment before finding suitable work. The major problems for the transition period are, first, to ensure that members of the forces are on a parity status with workers who have been in covered industrial employment during the war, and second, to extend the scope of existing insurance schemes so as to provide protection to more workers and to improve the standards of the legislation so far as possible. The first problem can be solved by applying the principle suggested by the last session of the Conference and mentioned above. In this field, there has been little change from the position reported last year. With respect to the second problem, a number of countries have taken action to strengthen and improve unemployment insurance schemes, from the standpoint of the demands which will be made upon them during the transition period. Thus, among the liberated countries, *Belgium*, *Greece*, and the *Netherlands* have lost no time in introducing broad schemes of unemployment insurance, while *Czechoslovakia* and *Luxembourg* are known to be planning the introduction of such schemes. The President of the *United States* has called for emergency action to improve the coverage and standards of unemployment compensation legislation, and the Congress is considering a bill for this purpose<sup>1</sup>, and *Switzerland* and *Great Britain* have increased the rates of unemployment benefit. *Australia*, preferring on grounds of principle a non-contributory to a contributory basis, has put into force a permanent scheme of unemployment assistance, under which the means test is of a liberal character.

While these schemes undoubtedly provide protection for workers and veterans during intervals of unemployment, the coverage of these schemes and the duration of benefits is limited and some countries have no scheme in operation. There is therefore a need for supplementary protection in the form of unemployment assistance, as was urged in the Social Security (Armed Forces) Recommendation, 1944, or for special forms of dismissal or short-time pay. This is a particularly urgent problem in the liberated countries, where benefit cannot immediately be paid under the reorganised social insurance schemes and where there is relatively extensive unemployment among returned deportees and prisoners and industrial workers. *France*, *Belgium*, *Luxembourg* and the *Netherlands* have all introduced emergency assistance schemes. They have recognised, and have tried to overcome, the major deficiencies

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<sup>1</sup> The Wagner-Murray-Dingell Bill, introduced into the Congress in May 1945 provides for a federal unemployment insurance scheme, affording a minimum of 26 weeks of benefit, and covering all persons in private employment.

of pre-war schemes. Moreover, several of the liberated countries have introduced schemes of special remuneration for workers in undertakings whose operations on liberation were reduced or suspended because of temporary difficulties such as shortages of transport, materials or equipment. One reason for these schemes was to keep the labour force of the undertakings together, and another was to facilitate temporary labour transference for the performance of urgent reconstruction work. In *France*, workers who are totally or partially unemployed as a result of the liberation, and whose employment contracts have not been cancelled, may receive compensation at rates, up to specified maxima, varying with the wages, number of hours of work lost, and the age and sex of the worker. Compensation is payable for a period up to 15 days, which could be extended twice for further periods of 15 days. While receiving compensation, these workers remain at the disposal of the undertaking in which they were employed or are continuing to work on short-time, but they may be transferred temporarily to work of national importance, under conditions fixed by the Government. Special action has also been taken to provide compensation for workers who, on trade union instructions, left their jobs to take part in the resistance movement. Other unemployed workers receive either unemployment benefit or assistance, at rates and under conditions determined by various Government decrees and orders. *Luxembourg* has made temporary arrangements for unemployment assistance, and a draft decree on the subject is under consideration by the National Labour Conference, which is examining, at the same time, the general social insurance scheme to be introduced. The *Netherlands* Government issued a Decree in August 1944 providing for relief works as a measure of unemployment assistance, and has also introduced, by an Order of 20 November 1944, a scheme whereby employers in the liberated parts of the country pay compensation to workers temporarily laid off or on short-time as a result of lack of work in the undertaking. *Greece* has introduced a system of rotational employment which is designed to combat temporary unemployment by sharing the work (with State subsidy paid to the employer for the purpose) and also, by avoiding dismissals, to hold together the labour force which will be needed at a later date. Assistance schemes in other countries have not undergone any major changes.

Here it may also be appropriate to mention a trade union demand in several countries for interim pay, rather than unemployment benefit or allowance, for certain groups of workers temporarily laid off during the transition to peace. In *Great Britain*, for example, the Amalgamated Engineering Union has argued that

many men may be "held at the Government's disposal, as redundant in some of the war trades but subject to direction to peacetime employment" and that they therefore should not be treated as unemployed but should receive their "guaranteed week" wage under the Essential Work Order. The Trades Union Congress has agreed with this view to the extent of urging that where special grades of workers are held in a district where they cannot immediately be re-employed but will be needed eventually on reconversion jobs, these workers should be considered as still under direction and entitled to their normal time rate. The *New Zealand* Rehabilitation Act, which provides that under certain conditions the Minister of Labour may require the continued employment of workers by their employers, presumably means that the workers would be entitled to their normal wages.

On the whole, the protection against temporary unemployment granted to discharged members of the forces, including prisoners of war, seems to be relatively satisfactory. That available to returning deportees, and displaced persons however, appears to be less satisfactory at the present time. For dismissed workers, the problems, which must be resolved primarily within the frame of unemployment insurance and assistance schemes, now relate above all to the standards of income protection. The adequacy of the standards of benefit or allowance, and the fairness of the conditions governing their receipt, are questions of the greatest human urgency in all countries. Moreover, the maintenance of the purchasing power of workers temporarily unemployed between one job and another in the transition to peace will have an important effect on the operations of the economy as a whole during the change-over.

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## CHAPTER XII

### SUMMARY AND CONCLUSIONS

Chapter I of the present Report contains a general survey of the nature and scope of the problem of maintaining high levels of employment during the period of industrial rehabilitation and reconversion. This period is no longer something to be planned for in the future, but is already here. It is characterised by shortages of various kinds of goods, especially in the liberated countries. At the same time many millions of men and women are being, and will for some time continue to be, demobilised from the armed forces, discharged from war employment, and repatriated to their home countries from prisoner of war camps and from employment by the enemy. Apart from a relatively small number who will withdraw from the employment market altogether all these men and women will need fresh employment.

Reference is made in this chapter (and later in the Report) to the Charter of the United Nations adopted at San Francisco and to the International Monetary Fund and the International Bank for Reconstruction and Development, the establishment of which was agreed to at Bretton Woods. The preamble to the proposed resolution which is submitted to the Conference starts therefore with three paragraphs referring to the social provisions of the Charter and of the Articles of Agreement establishing the Fund and the Bank respectively, and it is suggested in paragraph 1 of the main part of the resolution that the Conference should note these provisions of the United Nations Charter with keen satisfaction. In paragraph 2 it is suggested that the Conference should note with keen satisfaction that the Fund and the Bank are required to be guided in all their decisions by the social purposes indicated in their respective Articles of Agreement.<sup>1</sup>

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<sup>1</sup> According to Article I (ii) of the Articles of Agreement of the International Monetary Fund one of the purposes of the Fund is "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy".

According to Article I (iii) and (v) of the Articles of Agreement of the International Bank for Reconstruction and Development, the purposes of the Bank are, *inter alia* "to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories" and "to conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy".

Paragraphs 4 and 5 of the preamble recall certain paragraphs of the Declaration of Philadelphia which have a bearing on the problem of maintaining high levels of employment, and paragraph 6 draws attention to the fact that certain aspects of that problem were dealt with at Philadelphia by the 26th Session in 1944 in the form of four Recommendations, which cover a wide range of subjects. It is not proposed to add to the provisions of those Recommendations. On the employment and training of disabled workers the Office is preparing a documentary study which it hopes to publish by the time the Conference meets. Paragraphs 7 and 8 of the preamble draw attention to the fact that the maintenance of high levels of employment requires the adoption of appropriate policies on matters other than those referred to in the Philadelphia Recommendations and to the desirability that the representatives of Governments, employers and workers assembled at the 27th Session of the Conference should formulate their views on these matters.

It is clearly important to guard against unemployment which results from a deficiency of effective demand for goods and services, that it to say unemployment due to the factors which operated in the thirties. In the immediate future, however, it is more likely that demand will outrun supply and that there will be a risk of inflation rather than of a deficiency of effective demand.<sup>1</sup>

There is widespread agreement on the economic factors which determine the general level of employment and which will in some cases have to be controlled during the transition period, though not to the same extent as they have been during the war. The total volume of spending in each country must be adequate to ensure a high level of employment, but total expenditure consists of a number of components according to the purpose for which the expenditure is made: private investment, public investment, private consumption, Government expenditure on current services, and exports. Some of these components, such as private investment and exports, are unstable at all times. The probable course of these components during the transition period is traced in Chapter II, and a distinction is drawn between what are called excess-savings countries like the *United States* and *Canada* and capital-scarcity countries like the liberated countries, the under-developed countries and, in present circumstances, *Great Britain*.

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<sup>1</sup> On the other hand, account has been taken throughout the Report of the possibility that in certain countries, the *United States* for example, the inevitable unemployment involved in the reconversion of industry and the reintegration of demobilised men and women and discharged war workers into employment might cause consumers to withhold purchasing power to such an extent as to cause a deficiency of effective demand with resulting unemployment of a depression type.

In Chapter III, the Report explains the principal shortages which prevail in the transition period, particularly shortages of transport, sources of power, raw materials and productive equipment, and also shortages of specific types of workers such as coal miners.

Consideration is given in Chapter IV, and in paragraph 2 of the proposed resolution, to policies concerning one of the components of total expenditure, namely private investment, defined as the purchase by individuals or companies of capital goods such as factories, equipment and tools, and additional stocks of raw materials. Until recently it was assumed that the primary role of investment in the immediate future would be to ensure the production of the materials that would be required to bring the Japanese war to a successful conclusion. That successful conclusion has now been achieved and considerable reductions have been made in the production of such materials. In these circumstances it would appear that investment policy should be designed to eliminate as rapidly as possible shortages of goods by reconversion and development measures, and thereby ensure a high level of employment in the capital and consumers' goods industries. A number of measures may be suggested for this purpose. One is the retention, as long as the shortages of capital goods exist (the question of shortages of consumption goods is dealt with in paragraph 3), of direct controls which aim at the allocation of materials according to a schedule of priorities. The purpose of this measure is to ensure that the capital goods in short supply are made available for the most important purposes first and for less important purposes afterwards. It would no doubt have to be accompanied by price control<sup>1</sup>, because a scramble for capital goods for approved purposes would force up prices and lead to inflation. As the shortages are overcome, the controls would be relaxed but, owing to the danger of inflation, it seems important that this relaxation should be gradual.

A second suggestion might be the adoption of measures to facilitate the flow of credit, in particular to new efficient enterprises. This repeats in slightly different words a recommendation made in the resolution concerning economic policies for the attainment of social objectives (paragraph 12 (d)) adopted at Philadelphia. Its purpose is to urge Governments to see that the necessary steps are taken to provide finance for such enterprises if adequate facilities do not already exist.

A third measure might be a sharing by public authorities of the risks of enterprise by direct investment or otherwise in types of

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<sup>1</sup> Price control is discussed in Chapter VII.

development, such as housing, which are of special importance from the social point of view. Any measures that might be adopted for this purpose, such as housing subsidies for example, would of course be primarily important in supplying an adequate number of houses, but they would also have the effect of helping to ensure a high level of investment and employment.

Chapter V of the Report is concerned with public investment. Public investment policy was dealt with in the Public Works (National Planning) Recommendation, 1944, adopted at Philadelphia, and the present Report discusses the application of this Recommendation to the special problems of the transition. No further proposal is made on the subject in the draft resolution.

Chapter VI of the Report and paragraph 3 of the proposed resolution deal with the question of consumer spending. There is likely to be a big demand for consumers' goods owing to the difficulty in obtaining them during the war and such a plentiful supply of purchasing power in the hands of consumers, resulting both from current income and from savings accumulated during the war, that in the immediate future the danger will be one of inflation rather than of a deficiency of demand. This would have serious social consequences, such as a reduction of the real income of workers, especially of white-collar workers, whose wages or salaries are fixed for longer periods than those of manual workers, and those in receipt of fixed money incomes such as old-age pensions. These consequences might cause widespread industrial unrest. In order to counteract the danger of inflation, it is suggested that the Conference might recommend that, as long as shortages of consumption goods prevail, physical control, such as rationing and licensing, and price control be maintained and that, as the shortages are overcome, these controls be relaxed gradually.

A second suggestion is that an educational campaign be undertaken to persuade consumers to refrain from using their increased purchasing power in such a way as to force up prices.

Chapters V and VI show that in the transition period taxation policy will be of particular importance in relation to both investment and consumer spending. The Conference may wish to preface any recommendations it may make on these special aspects by a general statement that in determining taxation policy the effect of the policy on the volume and structure of employment and output should be a primary consideration (paragraph 4).

There are certain wartime taxes, of which the excess profits tax is an example, which weigh most heavily on investment. Since it will be desirable in the transition period to encourage investment whenever the necessary materials are available and to discourage

it if the circumstances are such as to threaten inflation, the Conference is invited to call upon Governments to consider the desirability of reducing these taxes gradually and, if necessary, of making such adaptations in the tax system as would stimulate investment.

Tax policy is also of great importance in regulating the flow of purchasing power in the hands of consumers. There will certainly be a reduction in Government expenditure for war purposes and this will enable legislative authorities to make a choice between reducing taxation and continuing borrowing, or the maintenance of comparatively high levels of taxation and reducing borrowing. It would seem desirable to suggest that the timing of changes in taxes which act as a brake on consumption (indirect taxes and direct taxes, especially on lower incomes) should, as long as shortages of consumption goods and services prevail, be determined by the importance of retaining such a brake on consumption and thus of preventing inflation. As the supply of such goods and services increases, these taxes would be gradually reduced.

Chapter VII, which discusses the problem of price control, also considers wages and hours of work in relation to employment policy. These subjects are extremely complicated and it does not appear possible at the present time to make any proposals of general international validity with regard to them.

All the problems to which reference has so far been made can, for the most part, be dealt with by national action, though international co-ordination of policy is very desirable. But there are some problems which cannot be solved except by international action. The shortages of transport, sources of power, raw materials and industrial equipment in relation to the available labour are so acute, especially in the devastated countries, that many workers are unemployed in the industries concerned. Some of these workers can be transferred temporarily to other types of work for which, however, they have no special aptitude or skill and that results in inefficiency. Consumption goods, especially food, clothing and medical supplies, are also in very short supply and in consequence workers are sometimes unable to obtain the minimum standard of living essential for efficient work. To overcome these various shortages, imports are necessary.

As has been explained in Chapter VIII, there are competing demands for the goods required; such demands come from the home market and from countries which have not been devastated during the war, as well as from those which have been devastated.

It would therefore seem appropriate that some priority should be given to the devastated countries so that they may obtain a reasonable proportion of the supplies that are available (paragraph 5).

These countries are for the most part, however, not in a position to pay for the imports immediately. They lack adequate foreign exchange and they will be unable in the near future to obtain additional foreign exchange by means of exports. It is therefore suggested that special financial arrangements might be made to enable the countries most in need of imports and having little or no foreign exchange to obtain the necessary supplies without direct payment. These arrangements might be multilateral in character, such as U.N.R.R.A., or bilateral.

A further financial suggestion is that short-and medium-term credits should be provided either through ordinary commercial channels or, if necessary, by special intergovernmental agreements. Arrangements of these kinds have in fact been made in a number of cases.

The next suggestion relates to the provision of long-term loans at low rates of interest which will be of special importance to the devastated countries in the transition period. Such loans might be made available directly by the countries able to make such loans, which is the usual procedure at the present time, but later on, when the International Bank for Reconstruction and Development is established, loans will also be made by that Bank or under a guarantee from it.

Reference has already been made to the fact that there will be competing demands for the available supplies. In addition to the devastated countries there are other countries which have serious employment problems that can be solved only by international action, namely the agricultural and raw-material producing countries, which will need assistance in meeting their import requirements. These requirements include both consumers' goods and capital goods, the latter being the more important for the development of the industrial and agricultural resources of those countries. It is therefore suggested that the necessary arrangements should be made to meet these requirements (paragraph 6) and although no details are specified, these arrangements would no doubt include measures to make available not only the goods but also the shipping to transport the goods.

It is, however, not enough to arrange for the import requirements to be met. Although many of the countries concerned have foreign exchange resources which they have accumulated during the war, it seems hardly likely that these resources will be adequate

without foreign loans. It is therefore proposed that, with a view to facilitating the financing of such imports, long-term loans at low rates of interest should be made either directly by countries able to make such loans or by or through the International Bank for Reconstruction and Development.

Technical assistance may also be necessary and this might take the form of placing technical experts and training instructors at the disposal of the countries concerned or of giving facilities for the training in the industrialised countries of such persons to become experts and instructors.

There is a special problem facing the agricultural and raw-material producing countries in the transition period. They have been supplying the other United Nations with raw materials for war purposes and when the contracts that have been made for the supply of such materials are curtailed or terminated, many workers will necessarily be thrown out of work. Extensive adjustments will be necessary to ensure that the least possible disturbance is caused to the economic and social welfare of these countries. Joint consideration might be given to this problem by both the supplying and receiving countries and it is suggested that the necessary adjustments in the former might include measures to facilitate a transfer of resources to other types of production, and more particularly the conclusion of contracts for food and materials needed for the relief and reconstruction of the devastated countries.

Chapter IX contains a survey of the changes in the structure and location of industry which have taken place during the war. Unless these changes are taken into account in planning industrial reconstruction and development there is grave danger of a recurrence of local areas of unemployment such as existed in some countries in the inter-war period. In *Great Britain*, for instance, there was a serious problem of "depressed areas" due to the loss of export markets for certain products such as cotton textile goods and coal. Other examples could be cited. The measures that may be taken will differ according to the circumstances of each case, and the suggestion made in paragraph 7 is therefore confined to drawing attention to the importance of the problem.

Chapters X and XI contain information on the organisation of employment and on income maintenance of men and women demobilised from the armed forces and discharged from war employment. These subjects are, however, covered by the Philadelphia Recommendations and no further proposal is made at the present time.

## DRAFT RESOLUTION

Whereas the Charter of the United Nations provides that, with a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote, among other things, higher standards of living and full employment and conditions of economic and social progress and development; and

Whereas the Articles of Agreement of the International Monetary Fund provide that one of the purposes of the Fund is "to facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy"; and

Whereas the Articles of Agreement of the International Bank for Reconstruction and Development provide that one of the purposes of the Bank is "to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories"; and

Whereas the General Conference of the International Labour Organisation has recognised in the Declaration of Philadelphia the solemn obligation of the Organisation to further among the nations of the world programmes which will achieve full employment and the raising of standards of living; and

Whereas the Conference has also affirmed in the Declaration of Philadelphia that all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity, and that the attainment of the conditions in which this shall be possible must constitute the central aim of national and international policy, and has further affirmed that it is a responsibility of the International Labour Organisation to examine and consider all international economic and financial policies and measures in the light of this fundamental objective; and

Whereas the Conference at its Twenty-sixth Session adopted the

Employment (Transition from War to Peace) Recommendation, 1944, the Employment Service Recommendation, 1944, the Public Works (National Planning) Recommendation, 1944, and the Social Security (Armed Forces) Recommendation, 1944, which provide for measures to facilitate the re-employment of demobilised members of the armed forces, discharged war workers, and all persons whose usual employment has been interrupted as a result of the war, enemy action, or resistance to the enemy or enemy-dominated authorities, including measures relating to the advance collection of information, the demobilisation of the armed forces, industrial demobilisation and conversion, applications for work and for workers, vocational guidance, training and retraining programmes, geographical mobility, the employment of women, young persons and the disabled, the regularisation of employment in particular industries, the organisation of an employment service, the national planning of public works and the provision of income security for persons discharged from the armed forces and assimilated services and from war employment; and

Whereas the maintenance of high levels of employment in the period of industrial rehabilitation and reconversion also requires the adoption of appropriate policies relating to such matters as investment, consumer spending, international capital movements and trade, and the planning of industrial reconversion and development in relation to changes in the structure of industry; and

Whereas it is desirable that the representatives of Governments, employers and workers assembled at the Twenty-seventh Session of the Conference should formulate their views in regard to these matters;

The Conference adopts the following resolution:

1. (1) The Conference welcomes the adoption of the Charter of the United Nations and notes with keen satisfaction that it provides for international economic and social co-operation for the promotion among other things of higher standards of living and full employment, and conditions of economic and social progress and development, and pledges all Members to take joint and separate action in co-operation with the United Nations Organisation for the achievement of these purposes;

(2) The Conference expresses its keen satisfaction that the International Monetary Fund and the International Bank for Reconstruction and Development are required by their respective Articles of Agreement to be guided in all their decisions by the social purposes indicated in the said Articles and quoted in the preamble to the present resolution.

2. In order to eliminate as rapidly as possible the shortages of capital and consumers' goods which are a characteristic feature of the period of industrial rehabilitation and reconversion, and thereby to ensure a high level of employment in the industries concerned, investment policy should provide for—

- (a) the retention as long as shortages of capital goods exist of direct controls aiming at the allocation of materials according to a schedule of priorities, accompanied by price control, and a relaxation of such controls gradually as shortages are overcome;
- (b) the adoption of measures to facilitate the flow of credit to new, efficient enterprises ; and
- (c) a sharing by public authorities of the risk of enterprise by direct investment or otherwise in types of development such as housing which are of special importance from the social point of view.

3. (1) As the existence in most countries of a relative shortage of consumption goods, accompanied by a high effective demand for such goods both from current income and from savings accumulated during the war, creates a danger of inflation which would have serious social consequences, including particularly a reduction in the real income of workers, especially white-collar workers and those in receipt of a fixed money income, and the danger of widespread industrial conflict, appropriate measures should be adopted to counteract the danger of inflation.

(2) In order to achieve this aim—

- (a) control of the supply of consumption goods by such means as rationing and licensing, accompanied by price control, should be retained as long as shortages of these goods prevail and should be relaxed gradually as the supply increases; and
- (b) an educational campaign should be undertaken to persuade consumers to refrain from using their increased purchasing power in such a way as to force up prices.

4. In determining taxation policy, the effect of such policy on the volume and structure of employment and output should be a primary consideration and in applying this principle in the period of industrial rehabilitation and reconversion—

- (a) Governments should consider the desirability of reducing gradually those wartime taxes which weigh most heavily on investment, and, if necessary, of making such adap-

tations in the tax system as will stimulate investment; and

- (b) the timing of changes in taxes which act as a brake on consumption should be determined by the importance of retaining such a brake as long as shortages of consumption goods and services prevail and of reducing such taxes gradually as the supply of such goods and services increases, this reduction applying in the first instance to indirect taxes and taxes on lower incomes.

5. (1) As the shortages of transport, sources of power, raw materials and industrial equipment in relation to the available labour, which characterise the period of industrial rehabilitation and reconversion, more especially in the devastated countries, tend to cause unemployment, and as the shortage of consumption goods, more particularly food, clothing and medical supplies, may deprive employed workers of the minimum standards necessary to enable them to do their work efficiently, arrangements should be made by the Members concerned to enable the countries in which there are serious shortages of such goods to import—

- (a) the sources of power, raw materials and manufactured goods required to restore transport, to reconstruct their industries and to replenish their stocks so that the available labour may be fully employed on productive work in accordance with reasonable social priorities; and
- (b) consumers' goods necessary to ensure for the workers a minimum standard of living.

(2) These arrangements should include—

- (a) the granting by countries having supplies of such goods of the priorities necessary to make a reasonable proportion of such supplies available to the devastated countries;
- (b) appropriate measures for the provision, without direct payment, of such supplies to the countries which are in the greatest need and have little or no foreign exchange available for their purchase;
- (c) the provision of short-and medium-term credits either through ordinary commercial channels or, if necessary, by intergovernmental agreements;
- (d) long-term loans at low rates of interest to the importing countries made directly by the countries able to make such loans or by or through the International Bank for Reconstruction and Development.

6. (1) Subject to the priorities recommended in paragraph 5, arrangements should be made to meet the import requirements of the agricultural and raw-material producing countries, more particularly their requirements of the capital goods necessary to enable them to develop their industrial and agricultural resources to the fullest possible extent.

(2) With a view to facilitating the financing of such imports, long-term loans at low rates of interest should be made directly by countries able to make such loans or by or through the International Bank for Reconstruction and Development.

(3) Technical assistance should be provided by the industrialised countries, more especially by placing technical experts and training instructors at the disposal of the agricultural and raw-material producing countries and by giving facilities for the training of such personnel in the industrialised countries.

(4) In order to prevent unemployment in the agricultural and raw-material producing countries resulting from the sudden curtailment or termination of contracts concluded by them with other members of the United Nations for the supply of raw materials for war purposes, joint consideration should be given by the members concerned to the measures that may be necessary to ensure that the curtailment or termination of such contracts will cause the least possible disturbance, including measures to facilitate a transfer of resources to other types of production, and more particularly the replacement of the contracts for war materials by contracts for food and materials required for the relief and reconstruction of the devastated countries.

7. In order to prevent the development of local areas of high unemployment such as existed in some countries in the inter-war period, attention should be paid, in planning industrial reconstruction and development, to the changes in the structure and location of industry which have taken place during the war, including particularly a great expansion in many countries of industries engaged in the production of war materials, the creation or expansion of various industries in the less industrialised countries and the expansion of industries manufacturing substitutes for raw materials.

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